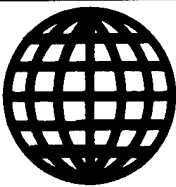


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CZECHOSLOVAKIA

Battek Reflects on 'Czech Politics'

91CH0037A Prague MLADA FRONTA in Czech
20 Sep 90 pp 1, 3

[Interview with Social Democrat leader Rudolf Battek by Karel Hvizdala and Libor Sevcik; place and date not given: "A Resolute Politician"]

[Text] [MLADA FRONTA] The term 'Czech politics' is often used today. How would you define it?

[Battek] To my mind, an attempt to define Czech politics will depend on how we think about the effort to express Slovak politics, especially the joining of both nations and republics in a federation.

[MLADA FRONTA] And is not the problem of Czech politics connected with the nonexistence of Czech consciousness and self-confidence?

[Battek] It probably is! I not only have the impression, but am also certain that Slovaks really are making their own decisions about their affairs, and that they are also seizing the initiative when decisions are being made about jurisdictions because they need to build up ethnic and constitutional sovereignty. In some individuals this kind of consciousness is a source of an exaggerated, and therefore false, national self-confidence and of an effort to attain real equal rights. It will obviously take some time before the perception level of national awareness, statehood, sovereignty, partnership equality, but also of a full, I would say fulfilled, coexistence is balanced out. For the time being the approaches and views are very different. Yesterday I met the chairman of the Slovak National Party, Mr. Moric, in the vestibule of the Parliament. I said to him pleasantly: "Well, what do you think, shall we together preserve the federation or not?" And he told me quite seriously: "Of course, but first we still have a lot of work to do for the next five years." The idea of a federation firmly established only after several years is something new in political thinking, and we shall have to clarify that. I am aware of the urgent need for a full-fledged Slovak national identity, a need which carries within it a tragical feeling stemming from the awareness that in history an independent Slovak state was established under conditions that were undoubtedly tragic, during the time of fascism and clericalism; but that is a poor contribution to a modern European statehood. To use it as a basis is totally unacceptable.

[MLADA FRONTA] But then again you must understand their effort to search for their own identity...

[Battek] There is an element of political helplessness in it... But I think that today the identity of Slovaks as a nation is already quite unequivocal.

[MLADA FRONTA] And what would you base it on?

[Battek] I would base it above all on an inner motivation stemming from national self-confidence. The problem is

that we are a larger nation and have more of a tradition. The Hungarians are telling them that they are not a 'nation-state'. The Slovaks never had—in the proper sense of the word—their own state. But even if they cite the debatable Pribina, then the next one would have to be Tiso—and that is the stumbling block. All of which obviously produces the specifics of creating the state-consciousness of the Slovaks. Or in other words, they still feel the weakness of the past and they would somehow like to overcome it. But that will not be achieved by creating artificial state-forms. However, the Czech national state-consciousness is conditioned by it, and it must reflect the situation of the Slovaks because we live in a permanent symbiosis.

[MLADA FRONTA] Let us go back to Czech politics because at this time it appears to consist only of giving in....

[Battek] I do not think that we need to go to extra lengths to prove our historic rights, it is enough to follow the present form of Czech statehood and calmly try to define its current principles. We do not have to hurry.

Moreover, I do not think that we have much need to emphasize a distinct Czech statehood. Because Europe will of course consider us a federation of two nations, and from that ensues the natural fact that the Czechs are Czechs. The danger lies rather in the possibility that too much emphasis on Czech statehood, which the Czech public is not used to, will engender some neurotic feelings about ourselves. I am afraid that the Czech public will ask, why do we need it all of a sudden—and whether this need is not something artificial and unnecessary. Petr Pithart, with his intellect and ability to explain these matters, as the Czech premier feels it the most and most immediately. But—perhaps I am being too critical here—even as a dissident he represented a sort of a fragmentary policy, which is reflected to a certain extent even in his present practical politics. I do not think it is bad but in relation to Meciar's authoritative style it is something of a marked contrast. The premier, an intellectual, addresses society in his decent, tolerant speech on television, but when he faces the masses they want simple sentences and simple ideas. That is the difference between a politician who knows how to address an emotional crowd, and a politician who puts emphasis on more complicated, rational formulations.

[MLADA FRONTA] We talked about that with Petr Pithart in MLADA FRONTA today, 1 September, and we called the politics of simple talk the "language of the comics."

[Battek] As long as the politician does not abuse it and it is within the limits of his objectives, then it is all right but also easily misused; the crowd immediately favors the most radical views, even fascistic ones.

[MLADA FRONTA] But let us go back now to the political spectrum, because the left wing is conspicuously missing from it. You were one of those who tried to

revive Social Democracy, but in the end they expelled you. How do you look at it now from a distance, as the old optimist that you are?

[Battek] Naturally, it brings on a genuine smile; I even know that in the situation where the Social Democratic Party has been and is now, cooperation in the leadership would not be possible. Fortunately, to be a Social Democrat does not depend on being an official member of the party. We are going ahead in the Club of Social Democrats in the Civic Forum, and that is attracting more and more people. The current leadership of Social Democracy does not have a policy that is able to address people and gain their trust. It is interested only in looking for narrowly understood partisan benefits, and not in politics aimed at the higher interests of society which is precisely what should characterize a good, democratic politician. I am never going to be the kind of person who will be active in politics solely for the interest of his own political group. I have already become used to the fact that there is always something more important that must be respected even by a political institution.

[MLADA FRONTA] Social Democracy could be a genuine party of the left, but it is becoming apparent that society is not interested in it...

[Battek] The situation in Eastern and Central Europe obviously still has to mature and arrive at something so that the so-called left can develop naturally into something that is needed. As long as people will not vote for such a grouping, what kind of a left are we talking about? I am rather inclined to give up that designation, even though I know that it cannot be left out of the political lexicon. We all know that it is part of every contemplation of political balance in a democratic society. I also belong to those who have a personal interest in having a credible Christian Democratic Party—with politicians who are perhaps new, younger. All that, as we can see, needs time. But we are certainly facing the same future. We must be able to cooperate. From the so-called left to the so-called right. Because that is the only chance our society has. Now the Parliament has before it the problem of the scenario for economic reform, about which of course the parliament cannot make a decision and give some kind of sanction to the government—that falls within its decisionmaking authority. The government made it available to the parliament so that it could, as a legislative body, think about it, because there are responsible people here who should know what is in it so that they can express their opinion about it; but we cannot vote on it, that is the responsibility of the government. If the government fails utterly, then it will have to resign. But at the same time we must keep in mind that any current reform is going to be something of an experiment. Every economist knows that no blueprint is absolutely optimal. And all of us shall probably make an effort—whether we approve it or not—to have the experiment turn out as best it can. That is the basis of future cooperation without regard to who stands where in the political spectrum.

[MLADA FRONTA] There are those who insist that a genuine left could be created by merging three viable components, three parties: Communists, Social-Democrats, and Socialists... What do you think about that?

[Battek] In this particular connection I am thinking more about a credible and strong Social Democracy and that cannot come into being by merging with a coalition. I see its membership base mainly in the middle and young generations, active especially in the broad political spectrum of the Civic Forum movement. Those who today call themselves Communists and are members of the Communist Party, are the real heirs of all that communism has wrought. And if today they pretend to be democrats, it is a manifestation of an inability to understand the political past in its inescapable linkage to the present. So let us leave the Communists to the Communists and their fate. As far as the Socialist Party is concerned, that lost its identity during the past 40 years. We can see the consequences of that in the difficulties they have today—therefore not a good contribution to a coalition either. And as far as the reformist communists are concerned? Most of them have not been communists for a long time—they are linked to communism only by their 20-year-old post-February past. There is still enough of those who will remind them of it, to many of them correctly, but to many quite unjustly! The new, modern Czech politics of the future will no longer lean on this wing. They are on their way out of the political scene, but their cooperation in today's making of a democratic society is necessary and positive.

[MLADA FRONTA] When we talked to Vaclav Benda, he told us that he considers the reformist communists to be a big drag in the parliament, and he insists that they are still in favor of finding a third way and thus they actually hold back the reform and privatization...

[Battak] That manifests itself more in the personal sense. And no wonder. They used to be friends with many establishment communists, and such connections never actually ceased. And for that reason they are much more tolerant toward them, even though we know that they should leave the political scene as well as the economic top management. Many of them can—as bureaucrats—serve quite well. But to distinguish who will serve honestly and who will be looking for dishonest gains, that is quite difficult. Premier Calfa is one of those who say that many of these people cannot be let go because his Premier's Secretariat would disintegrate. There is quite a bit of truth in that, but we must not let up on the constant pressure for gradual personnel changes. We must get young and gifted people for the leadership, who can then mature to become the new Czech politicians.'

[MLADA FRONTA] Let us change the topic: How do you feel in this office?

[Battek] I would prefer to work here with my eyes closed. But one gets used to things. I can sense here how power can corrupt, and also that money comes after power. But

fortunately my life's experiences prevent me from letting the hunger for power grow like a cancer. Somehow it is present in every human being, particularly when he suddenly realizes how respected he is and what all he can do. I can understand how such a sense of power can lead a morally weak person to misuse it. It does not take much.

[MLADA FRONTA] And what about this office? Who used to sit here before you?

[Battek] Previously there was Mr. Bartoncik, and before him Mr. Vedra. I would much prefer to be in the building of the Czech National Council, which is much more human, much more sympathetic. It has a relaxing, calming effect. And this is such a strange monstrosity, actually the result of the Communists' remodelling of the Stock Exchange.

[MLADA FRONTA] A great programmer of the Social Democratic Party today is Ivan Svitak, who says that after the year 2000 all Europe will be socialist.

[Battek] He is a man who talks in paradoxes and who is not afraid. Of course, he is very free and flamboyant, but fortunately he is willing to correct his statements. He continues to maintain his leftist stance and still harbors an inner conviction that socialism as a distinct social system is a possibility. He emigrated and thus did not experience the change and the entire destruction of concepts which occurred here. In the manifesto Democracy For All in 1988 we eliminated socialism not because we could not imagine an optimal instance of a modern socialist state, but because we knew that this word has been rendered void. But I do not want to concern myself with this. For me only the concept of social democracy has any meaning, which continues to have a definite chance and prospect for the future. But just name me a political grouping today that does not emphasize social aspects. That should make the possibility of a social consensus among political adversaries all the greater.

[MLADA FRONTA] Are you not afraid that the Communists will, under the guise of some social justice, use social demagoguery and maybe provoke strikes?

[Battek] That is the advantage of their place in the opposition, that as soon as there is a political confrontation they will use every means at their disposal. But democratic politicians must anticipate that and be prepared for it. True, Mohorita understandingly agreed with my precept that we are political adversaries but that we should not be political enemies, however, at times it will become obvious that the opposition will probably shift to a hostile position and then it will be a confrontation that must be won. A strong democracy must be able to apply its strength also against these extreme political positions. We can expect no summer of grace from the Communists. More likely an autumn. And so we shall not tolerate any returns through the back door or false roles as advocates for the poor. But this should not sound like a threat. It is merely the resoluteness of a politician.

HUNGARY

Former AVH Official Publicly Repents; Publishes Autobiography

91CH0104A Budapest TALLOZO in Hungarian No 42, 19 Oct 90 pp 1986-1987

[Interview reprinted from MAI REGGEL 11 Oct 1990 with former State Security Office [AVH] Lieutenant Colonel Vladimir Farkas, son of former Defense Minister Mihaly Farkas, by Karoly Rimoczi; place and date not given: "To This Date We Do Not Know Who Were the Leaders of the AVH"—first paragraph is MAI REGGEL introduction]

[Text] The infamous personalities of history seldom pick up the pen to confess their crimes in the form of an autobiography. We more often find reminiscences which vindicate their authors. This is why a book just published by Vladimir Farkas, a former lieutenant colonel of the frightening AVH is different. Even the title "No Excuse" suggests that it was not written with an intent to seek absolution. I conversed with the author in an espresso coffee shop.

[Rimoczi] You used mass transportation to come here, and now we are sitting in a public place. Yet, you do not show a trace of anxiety or discomfort. Aren't you afraid of being recognized?

[Farkas] No, usually I'm not afraid. There were no atrocities thus far.

[Rimoczi] But it almost comes as a surprise that you are able to carry on in the world unharmed. Consider the fact that for decades your name was synonymous with the most bloody crimes of the feared AVH, and that the public continues to fear the AVH to this date.

[Farkas] This may be surprising to you, nevertheless this is the case. Since 1988 I spoke out publicly in Hungary, and through the international press on 19 occasions, including on Japanese television and through the Voice of America. No one ever denied the facts I stated. I always accept responsibility for actions taken under my own authority, and as the title of the book indicates, there is no excuse for these.

[Rimoczi] You asked that we not discuss the contents of your book. Nevertheless, would you provide some details as to why there is no excuse for these actions?

[Farkas] The actual role I played is described in the book. Let's not go into that now. Whoever is interested will buy the book anyway. But part of this is the fact that I also describe instances in regard to which the public holds a false view of me. That Vladimir Farkas acting alone could not have executed the several thousand victims of this huge terrorist organization is obvious, even if he went into a bloodthirsty rage every day and every night. The truth is that I had nothing to do with any death sentence.

[Rimoczi] And yet, you are being condemned, your name is synonymous with the AVH.... How could this charge survive for so long if it was not true?

[Farkas] It survived because to this date the names of the AVH leaders, those truly responsible, remain unknown, the AVH is an untouchable, anonymous organization.

[Rimoczi] Yet the names of the "two Farkas" are known. Did you become the culprit "on duty"?

[Farkas] If memory serves me well, it was Imre Pozsgay who once commented on the policy of finding culprits, and I agree with his view. Only a person burdened with responsibility may be turned into a culprit. The background of my becoming the culprit rests in politics. The story goes back to the June 1953 change. The Rakosi-Gero clique insisted on retaining power, while Mihaly Farkas temporarily became an ally of Imre Nagy. From this point on the Rakosi group viewed my father as a traitor. Light was shed in those days on political assassinations. As usual, only the victims from within the party were named, and the obvious issue of responsibility also arose. It was equally apparent that Rakosi, who managed the AVH from an operational standpoint, could not avoid being held accountable, if anyone seriously considered holding him accountable. But yet another change took place in Moscow: Khrushchev clearly supported Rakosi. Imre Nagy, whom my father abandoned by then and thus became a traitor also in the eyes of Nagy, recognized the fact that Rakosi was untouchable. Nevertheless there was continued need to hold certain people responsible, the Rajk funeral was approaching, to mention only the best known case. At the same time they wanted to conclude the AVH case once and for all. This is why an alliance of political interests was formed between Rakosi's group, Janos Kadar—just released from prison—and Imre Nagy to put the blame for everything on the two Farkas. The essence of this was also described by Sandor Fekete in his book entitled *Hungaricus*. He was put in prison for that in 1959. The investigating prosecutor once told me that my life would be different had it not been for the fact that I was the son of Mihaly Farkas. But since I am the son of Mihaly Farkas, it was easier to forge an official version of the notion that a criminal gang of one family was responsible for all the AVH actions. This is why I was arrested on the eve of the Rajk funeral, and this is why the societal demand of those days met deaf ears—among other matters the demand made by university students in October 1956 to hold an open trial in the case of "Mihaly Farkas and his associates." There should be no misunderstanding: I continuously condemn all actual wrongdoing of mine during the past 30 years, and I view these as criminal acts against the people which remain indelible with the passage of time. On the other hand, I had nothing to do directly or indirectly with the terrorist acts perpetrated by the AVH, which affected tens of thousands, perhaps hundreds of thousands of people.

[Rimoczi] And yet, except for the past few years, we had no opportunity to learn all this first hand from you. Why did you begin to talk only in 1988?

[Farkas] For a very simple reason: They did not let me. Anywhere I tried to speak out, I tried in vain, and I was rejected everywhere. Persons in authority at the "White House" prohibited me from making a statement even for the archives of the Party History Institute, strictly for internal use. But I gladly obliged when I was sought out by British television in 1987 for a statement. And then I was also able to talk into Bela Gyori's microphone in October 1988, in the VASARNAPI UJSAG program of the Hungarian Radio.

[Rimoczi] Did the ice break?

[Farkas] It did not break, but by then the power was not as much of a monolith, as unified as it was before, and it weakened to an extent. But Bela Gyori and the then chairman of the radio could tell you a story about the anger that erupted in the "White House" as a result of the broadcast.

[Rimoczi] Were they that scared of you?

[Farkas] They were not scared of me, they were scared of things I knew about. Things pertaining to the country's recent past which they suppressed and consciously presented in a different light.

[Rimoczi] Nevertheless thereafter you were able to speak out more frequently. At the University of Szeged for example, you were able to talk for more than 10 hours to several hundred university students.

[Farkas] But even appearance was banned. By the time I arrived the city's Hungarian Socialist Workers Party [MSZMP] leadership prohibited my meeting with students at the Gyula Juhasz Teacher Academy; they did not even permit me to occupy my room. Thanks to the reform minded leaders of the Attila Jozsef University of Sciences I was nevertheless able to respond to the multitude of questions raised by students, and I found a place to sleep. Thereafter, from a practical standpoint, they did not place obstacles in my way in order to prevent me from talking elsewhere.

[Rimoczi] Could it be that they felt that your public image would suffice to discredit you when you speak out?

[Farkas] This can be traced much more to the fact that by then the strength of the old leadership was not the same as before. In part, my public statements helped certain MSZMP reform wing leaders to accomplish a change vis-a-vis the old guard. I responded to each question by attaching names to the events. I did not conceal the role played by Janos Kadar in the Rajk case either. They could have sued me for libel had I not told the truth, but they did not.

[Rimoczi] Meanwhile power has changed in Hungary. To what extent did you make changes in your book as a result?

[Farkas] Not an iota from this standpoint. Political changes have no bearing on the events of those days.

[Rimoczi] Just a moment ago you mentioned the name of Janos Kadar among the leaders in power in 1988. But just as Vladimir Farkas alone could not be guilty of all the terrorist acts committed by the AVH, neither did Kadar act alone when they stopped you from speaking out.

[Farkas] It would be primitive to narrow down this matter to the person of Kadar. Obviously, those in the MSZMP leadership who continued to fight for the Kadar legacy did not like my words either.

[Rimoczi] Were there former AVH people among those?

[Farkas] I do not have in front of me the roster of the Central Committee of those days. Former ambassador to Moscow Sandor Rajnai comes to mind, but the former AVH people held, and still hold, responsible positions in various fields of society. Surprisingly, this holds true most in the cultural and educational fields and in mass communication. But the former leaders of the AVH were persecuted throughout the Kadar era. Borrowing the title of Merle's book, they were actually "protected people." No wonder that the names of leading AVH officers are still unknown.

[Rimoczi] You unveil these names in your book, I guess.

[Farkas] Look, this book is not about filing complaints, I only mention the persons with whom I had actual contact in the course of my work. This book does not describe the history of the AVH, it is about me.

[Rimoczi] As you state in your foreword, you intend this book to be a public act of contrition. And yet, I suspect your book may also have another purpose.

[Farkas] Indeed, I also have another purpose. I am describing my life from childhood on to these days. Not in order to find an excuse for myself, but because I believe that the reader must be aware of the kind of environment, the times in which I was brought up, the kinds of influences I was exposed to. So as to understand why I was able to conduct myself for decades as a conscious janissary of a system that was against the people. Hopefully, my public confessions will also serve the purpose of preventing forever a repetition of the so-called 1950's, under any banner.

POLAND

More German-Polish Cooperation Wanted; Nationalism Criticized

91EP0031B Warsaw *DZIENNIK BALTYCKI* in Polish
12 Oct 90 p 3

[Interview with Dietmar Brehmer, presidium member, Supreme Council, Association of the German Population in the Polish Republic, by Tadeusz Lubiejewski; place and date not given: "Germans in Poland"]

[Text] [Lubiejewski] The German minority in Poland is consolidating. That is, it's growing stronger and more unified, combining organizations and groups scattered all over the country into a single body. This seems to be the significance of the recently created Supreme Council of the Association of the German Population in the Polish Republic.

[Brehmer] Once a certain period in Poland's history had come to a close and there were signs of democratization of public life, local associations of people who considered themselves German began to spring up. Such attempts were made right after the war too, but then they were very severely denounced and repressed, so these people either emigrated to Germany or else remained here and ceased being interested in these things. It wasn't possible to organize or legalize the German minority until the 1980's, when Solidarity came into being.

A group in Gliwice was the first to show interest back in 1981. Then the minority movement grew in Opole Voivodship. It was also reborn in Olsztyn Voivodship, in Gdansk, in the region of Western Pomerania, in Torun, in Cieszyn Silesia, in the Bielsko-Biala area, of course, and in the region of Upper Silesia, as well as in Wroclaw, Walbrzych, and Jelenia Gora.

I wasn't personally an activist in the movement. I was involved in setting up the Upper Silesian Charitable Society [Gornoslaskie Towarzystwo Charytatywne], and I'm still working on expanding its activity. But I never concealed the fact that I was of German descent from anyone. After all, it's written on my forehead. My first and last name tell the story for themselves.

[Lubiejewski] How did you retain your sense of German identity all those years after the war, living here under those conditions? How did you feel about being German?

[Brehmer] I was aware of it the whole time, my entire life. I didn't change my name, even though it led to a lot of painful things, things I got through nonetheless. A person should always live the truth. Despite the poverty, there was a lot of joy in my youth, because of the many Polish friends I always had everywhere, in school, at the university, people who accepted me, knowing that I was German. I'm a German who was and is confronted daily with the reality that the Germans left in Poland. A DIE ZEIT journalist who recently came to see me said: "You

know, in the FRG we already settled with the past a long time ago." I answered: "Yes, of course, but living in Poland I know how much there is left to do for Polish-German reconciliation to actually happen."

[Lubiejewski] I find this idea in the declaration of the newly founded Supreme Council of the Association of the German Population in the Polish Republic, which elected you to its presidium. You people write there about "the urgent need to step up activity on behalf of further Polish-German reconciliation and cooperation in all areas of social, economic, and political life, in the context of building a common European home." But don't you think that before we can start talking about the European context we ought to work first on building a new social order here in our own country, Poland, and setting up relationships again between us?

[Brehmer] Indeed, and that's just what we intend to do. There are a great many things we need to take care of between us, including things related to the situation of minorities and their role in the life of Poland. It will also be our council's task to coordinate the previously dispersed efforts and undertakings of the various associations, societies, and groups of the German minority population and to knit them into a cohesive program of activities. The council will consider this population group's basic interests and demands and represent them before the parliament, the government, and other institutions of the Polish Republic and united Germany. Bringing it to life is the next stage of organizing our minority in Poland.

[Lubiejewski] Does the council have access to any exact data on the size of the German minority in Poland? Figures are constantly circulating that are contradictory and vary considerably.

[Brehmer] It is difficult to establish the precise size of our community in Poland at the moment. All this is still very fluid, and the Supreme Council has been in existence too short a time to be able to establish concrete data in a reliable way. You have to take this fact into account, but it's my personal opinion that various sorts of intentions and motives are guiding some people who, at the moment, are saying they are part of the German minority. All this will become clear as time goes on. Nonetheless, I think there are reliable grounds for estimating the German minority in Poland at about 700,000.

[Lubiejewski] Fears seem justifiable that the consolidation going on in your minority group may be exploited with various purposes and interests in mind.

[Brehmer] I personally think that in this day and age it is anachronistic to think in nationalistic categories. I have both Polish and German nationalism in mind here. German nationalism sometimes springs up in minority groups, because the German minority has never had a chance at democracy. First there was totalitarian Nazism, and then totalitarian Stalinism. It would be deplorable if we were to succumb to this.

We want—at least these are my intentions—to have a home along with all those who are obviously nurturing our culture. Every social movement is as worthwhile as its contribution to the whole. History will judge us by how much we can give of ourselves for the benefit of everyone living here. But the judge may not even be history. It may be the people, in their own hearts. Will we live in human hearts again as Germans who only plan something bad, or as a community which uses its own undoubted values to increase the common good where it lives?

TYGODNIK SOLIDARNOSC's Maziarski Interviewed

91EP0019A Budapest NEPSZABADSAG in Hungarian
3 Sep 90 p 6

[Interview with Jacek Maziarski, deputy editor in chief of TYGODNIK SOLIDARNOSC, by Miklos Ritecz; date not given: "Poland Seems To Be Falling Behind"]

[Text] Until now, Jacek Maziarski has been known by the public as a member of Poland's "Hungarian lobby," a publicist sympathetic to our country. As of late, however, the deputy editor in chief of the Solidarity weekly TYGODNIK SOLIDARNOSC has become known mostly for the political role he has undertaken as the leader of the wing which supports Walesa and his policy of acceleration in the split Solidarity movement. He is one of the founders of the Centrum Accord (the Gdansk wing faction). It was about the key elements of Centrum's policies which our correspondent in Warsaw questioned Jacek Maziarski.

[Ritecz] The greatest criticism against Centrum Accord is that it does not have a clear program, and that its only goal is to help Lech Walesa become head of state.

[Maziarski] Only groups situated between the Right and the Left are accepted into the Centrum. This is what distinguishes it from the other political forces. In other words, in our bloc there is no room either for extreme rightwing—nationalist and chauvinist—or social democratic and leftwing tendencies. We leave it to others to fill these functions in the field of politics.

We want liberals, Christian Democrats and democrats without any other modifier before their name to rally around us. Our main basis of support is the nationwide network of citizens' committees where most of our activists and members come from. What is our objective, you ask? Poland needs democracy which cannot be attained without the implementation of a genuine multiparty system. We need to have parties competing for electoral support, and there must be a clearly defined opposition. It must also be made clear whom the government represents.

[Ritecz] Are you saying that in Solidarity-led Poland there is no opposition?

[Maziarski] Paradoxically, that is in fact the case. In the past all of our efforts were focused on forging national support for the Mazowiecki government. In the meantime the cabinet has proven to be incapable of fulfilling its functions or even consolidating its own ranks. We have no minister of agriculture, and the appointment of a minister of telecommunications is still pending.

Poland has fallen behind the changes in East Europe. Compared with Hungary, we have had a late start in building a multiparty system. Instead, we embarked upon a wrong course akin to that chosen by Romania, by attempting to organize a kind of popular front in support of the government. At one point the Centrum has decided to say: No more! It abandoned this course, thus signalling the beginning of a modern multiparty system in Polish politics.

[Ritecz] The ongoing political changes, in your view, are too slow, and you have been urging the government to take more radical steps. Given its shocking repercussions, the Balcerowicz plan implemented in January can hardly be accused of being too slow. Even the Polish population was taken aback for a moment upon being hit by the winds of market economy.

[Maziarski] We believe that Poland must have a market economy as soon as possible. The guidelines laid down by deputy prime minister Balcerowicz undoubtedly represent a step in that direction. I feel, however, that even the Balcerowicz plan contains some fundamental flaws. While it has successfully held down inflation, it has failed to lay the foundations of a market economy. What we would need as soon as possible is a strong private sector, yet privatization is moving along at a snail's pace. The anachronistic structure of large-scale enterprises is still in place, continuing to produce at a deficit. And where do we get the money to subsidize the state sector? Mainly from the pockets of our citizens, by holding down the standard of living. Another source of covering our losses is from the taxes collected from the private sector. And this latter policy has only led to the fading of the private sector. In other words, one of the hidden flaws of the Balcerowicz plan is that the state sector, whose role should have declined, has remained intact, while the private has continued to weaken. Its other hidden flaw lies in the government's income and wage policy. Unless we manage to boost our citizens' purchasing power the time will come when Polish enterprises will have no one left to produce for. We have already reached the point where the reason why production is declining in our factories is because there is no one to buy their products.

[Ritecz] What, in your opinion, would be the proper solution?

[Maziarski] Freezing wages only appears to be a rational solution on the surface. The reason is that inflation stems not from the size of wages; no one can claim that in Poland people are making a lot of money. The deterioration of the currency stems from the poor structural

makeup of the economy, which I have already talked about. In other words, in order to control inflation this is what we would need to change, and forget about cutting wages. Previous leaderships all tended to resort to this latter solution, and it had always led to social upheaval. The Centrum is concerned about social unrest. We advocate a more rapid transformation of our economic structure: We want to eliminate monopolies, speed up privatization and lend support to the private sector.

[Ritecz] The philosophy you represent gives preference to national Christian values over a European mentality. In a mostly Catholic Poland this automatically puts you at an advantage against your political opponents. To an outsider it appears that this is what the Centrum is counting on in trying to find social support for accelerated reforms.

[Maziarski] We view our relationship with the Church and our national values differently from the way those institutions are perceived by the pro-government Democratic Action. They profess to be primarily European, progressive and tolerant in outlook. Our emphasis is on the word "Polish." In our opinion the role of the Catholic Church in our society is so pervasive that it cannot be treated the same way as a fishermen's association or even as a political party of some sort. We cannot ignore its importance, for doing so may also become a source of social tensions. Just because this is what we believe it does not mean that we are a clerical organization or that we would accept any form of church control. We are simply looking at things from the point of view of Polish reality. Poland is not atheistic Holland, or multi-religious Germany or Hungary. Poland is predominantly Catholic, which no political force can afford to ignore.

[Ritecz] Is this why you support religious instruction in the schools?

[Maziarski] Yes, with respect to issues such as this we need to proceed from the mood of society. If this is what 80 percent of the people want, we must support it.

[Ritecz] Doesn't this amount to religious discrimination against the remaining 20 percent?

[Maziarski] Not at all. However, the majority would consider itself to be a minority discriminated against if it had to go outside the school to study religion, which could be a real source of social conflict. And this must be avoided. We are also not in favor of classifying people as Polish Catholic or foreigner; Polish or Jewish; our kind or not our kind. This is why the Centrum Accord has been formed, i.e., to trim off any wild shoots from either extreme. It is false to suggest that the Centrum is advocating the views of chauvinistic, clerical, and demagogic groups. On the contrary: The reason we came into being was to prevent such groups from taking wing.

[Ritecz] Let us get back to our original question. What considerations can be driving the Centrum in calling for the earliest possible election of Lech Walesa as president, and the resignation of Jaruzelski?

[Maziarski] Of the many figures on the Polish political scene it was Lech Walesa who first called for the establishment of a multiparty system. While others were urging unified support for the government, he was pressing for pluralism, in other words, for a democratic Poland. Secondly, Walesa is a representative of the interests of our workers and peasants. He has a better feel for what we need than do the intellectuals in Warsaw and Krakow. The Centrum, which is an umbrella organization of various blocs, intends to represent the fundamental interests of the fundamental groups of our society, which is where their course merges with that of Walesa.

Walesa may not have the proper economic training, but he is acutely aware of the need to introduce market economy to Poland as soon as possible. In addition, he is a dynamic and energetic person, precisely the type that would make the right head of state in our given situation. Of all the Polish politicians today he is the only one who can live up to that task; I see no one who could better meet that challenge.

[Ritecz] Lech Walesa has been perhaps a little too heavyhanded at times in trying to influence the political course. What is your opinion about that?

[Maziarski] Look, once we have built us a democracy and a multiparty system, the danger of domination can be easily kept under control by an adequately strong opposition and a normally functioning parliament.

[Ritecz] Contrary to what you have been demanding, Walesa the other day decided not to call on the present parliament to elect a new head of state. Moreover, American President Bush has invited Jaruzelski to Washington in October. This must be frustrating the Centrum's plans.

[Maziarski] In my personal opinion, Walesa has misjudged the situation, failing to grasp its seriousness. If we want to avoid an explosion, we must put a new leader at the helm of our country. The government is not in charge of the situation, and lacks the necessary parliamentary support. It is facing a crisis of economy and confidence. Jaruzelski—as a man of the former system—lacks the trust of society. Only his resignation can bring about the necessary conditions for introducing rapid and necessary changes. Should he fail to do so, sooner or later there will be an explosion. I have no doubt that Walesa will eventually become head of state; my only concern is that—if Jaruzelski does not resign voluntarily—he will be marching into Belvedere on the shoulders of striking workers and peasants. This is why we are urging the present parliament to elect a new head of state, and not wait for a social explosion to force a change of presidents. For under the latter scenario—as after every violent change—the danger of government by dictatorial means would be a much more real one.

YUGOSLAVIA

Interview, Biography of Slovene Prime Minister Peterle

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[Interview with Slovene Prime Minister Lojze Peterle by Vojislav Lukic; place and date not given: "Christian Dream About Slovenia"]

[Text] [Lukic] Mr. Peterle, what does an independent Slovenia mean to you?

[Peterle] An independent Slovenia, the ancient dream of all Slovenes, means to me the goal that obligates me in heading the Slovene government.

[Lukic] How do you define Slovenia's confederate status in Yugoslavia?

[Peterle] Since "confederation" means to me an alliance of sovereign states, which decide on joint affairs by consensus, it is clear that Slovenia can only be an equal contractual partner in such a community. Of course, the content of the confederation is a matter for agreement.

[Lukic] Can Slovenia survive as an independent state?

[Peterle] Even disregarding the fact that there are about 60 states that are smaller than Slovenia in area or population, I am completely convinced that Slovenia can survive as an independent state. Independence depends most of all on quality, and not so much on quantity. In short, I do not have the slightest doubt of Slovenia's quality, and the possibility that Slovenia can prove itself through that quality.

[Lukic] What is the position of Slovenes in Austria and Italy like today?

[Peterle] I have been following the problems of Slovenes in Italy, Austria, and Hungary for more than 20 years now. In all of those countries, Slovenes have undergone extremely strong assimilation, or "statistical death," for which the aggressiveness and unfair policy of the majority peoples was to blame, along with the policy of Slovenia and of course Yugoslavia, especially when they were based on ideological criteria. With the development of democracy in Slovenia, new political and social/psychological circumstances have also emerged, and are giving rise to a new self-awareness for Slovenes outside of Slovenia. In all three countries, the issue of legal protection for the Slovenes there has not been suitably regulated, and so I could by no means consider their position to be fair, either in view of the theoretical constitutional commitments in those countries or in view of contemporary theory and practice concerning the protection of national minorities in Europe. Thus, for example, in Italy our minority is artificially divided into Slovenes and people of Slovene origin!

[Lukic] Is there a danger today of fascism in Europe?

[Peterle] Fascism is a latent thing, but I do not believe that it will assume any great dimensions.

[Lukic] How do you assess the Pentagonal meeting in Venice?

[Peterle] I view that meeting as a sort of warm-up for achieving one of the concentric circles with which a new Europe could emerge. While the position of the new democracies in Eastern Europe is still unclear, Italy has hurried to launch an initiative to have Czechoslovakia, Hungary, and Yugoslavia at least loosely attach themselves to West European institutions. As was seen at that meeting in Venice, Yugoslavia, and Slovenia, will benefit primarily in the area of investments in transportation and communication projects. Some people think that the Pentagonal means reaching for a new balance in Europe, with Italy trying to compensate somehow for the emergence of the German colossus.

[Lukic] Could you define relations in Yugoslavia a little more precisely? What should they be like, in your opinion?

[Peterle] It is well-known that Slovenia advocates the view that a third Yugoslavia is only possible as a confederation. The essence of a confederation is that no one will be outvoted, which means that no people can impose its will on another people. Consequently, we would not continue in the present manner any longer. That would be the essence of new relations in a possible third Yugoslavia.

[Lukic] What does the demilitarization of Slovenia mean?

[Peterle] The demilitarization of Slovenia is a long-term goal for Demos, and, I am convinced, for all citizens of Slovenia as well. That goal probably cannot be achieved in the short term, particularly because of the events that we have recently witnessed. In this case I am thinking of the events in Yugoslavia in which force, and military force, has either been used or only threatened; it still plays a large role now.

[Lukic] Can you say something about that demilitarization of Slovenia—what does the Slovene public think of it?

[Peterle] Slovenia's defense concept provides for the minimum defense necessary for Slovenia; this means, of course, increased efficiency, and a reduction in expenditures, those which Slovenia is incurring for the defense of Yugoslavia as a whole.

[Lukic] More and more is being said among the Slovene public—at least, that is my impression—about Slovenia's new defense concept. What could you say about it?

[Peterle] Slovenia's defense concept provides for the minimum defense necessary, and at the same time is financially acceptable for Slovenia. In the first phase, on the basis of expert assessments, it is necessary to adjust the size, organization, means of operation, and further

development of the armed forces. It is necessary to reduce expenditures for the Yugoslav National Army and territorial defense, and at the same time to ensure their modernization. Just reducing the size of the armed forces is not enough. Internal changes are also needed, which will ensure equal or even greater security when the armed forces are reduced. I think that the Slovene public has a realistic view of that problem and goal. We will therefore achieve it gradually, and not head-over-heels, and to Slovenia's detriment.

[Lukic] Since we are already talking about the public, what do you think about the rather widespread view that the Slovene Communists are to blame for the serious state of the Slovene economy? Specifically, it is alleged that not a single important decision concerning the Slovene economy could have been made during the last few years without the consent of the Slovene party leadership.

[Peterle] That opinion is justified, because it was precisely the Slovene Communists who made all the decisions that were important for our economy—and it was not just during the last few years! They did it during the entire postwar period. The system that they implemented has proven itself unsuccessful on a world scale. One can hardly find anyone else responsible for the collapse. They are the only ones to whom one can attribute the blame for the fact that in May 1990, more than 250 enterprises in Slovenia were facing bankruptcy.

[Lukic] Since I was not a member of any party, including the LC [League of Communists], I think that as a noncommunist I am fairly objective when I talk about the Slovene LC. How would you comment on the observation in Slovenia that it was hard for the Slovene Communists to accept the loss of the power that they had had for many years, and to which they had consequently already become accustomed?

[Peterle] Clearly power is not lost just like that, of its own accord, and so of course it is difficult for the Slovene Communists to reconcile themselves to losing power. I remember how they behaved during the election campaign, and what means they used to try to retain power. The question is whether such a query is even appropriate. The Communists really did lose their position in some areas of authority (the government, the opstinas, and the Parliament), but at the same time they continue to hold their positions in banks, health care, education, institutes, the diplomatic service... Of course, the story about their departure from power is an old wives' tale.

[Lukic] Does it seem to you that Milan Kucan—in view of his behavior, working methods, and views—is still a Communist, although formally he has not been an LC member since he has been president of the Slovene Presidency? In fact, the Slovene Communists have announced that the LC membership of their former president and leader Milan Kucan has been suspended while he holds his office in the Slovene Presidency.

[Peterle] Please don't criticize me if I refrain from answering.

[Lukic] How is Demos cooperating with the Slovene Communists?

[Peterle] There is no formal cooperation in particular, but in that sense I can mention the talks on national reconciliation, in which we achieved a sort of common denominator; and there is also their support for the Declaration on Sovereignty.

[Lukic] Can it be said of the Slovene liberals that they are a sort of offspring of the Slovene Communists? The liberals are, in fact, the former Slovene Youth Alliance, and we know that many Slovene Communist leaders have come from the youth organization.

[Peterle] As far as the "offspring" is concerned, that cannot be said of Minister Stanic, who is a member of that party, although he is not active in youth matters. The part of that party that is called liberal—we have another one with that name in Slovenia—cannot be considered a unified bloc. Aside from that, some of their actions quite certainly smell 'red.'

[Lukic] I think that it would not be pretentious to say that the Slovene LC is experiencing a real political agony. Its membership is declining drastically, and there is also less and less money for political activity by what was until recently the sole and ruling party. Will the Slovene Communists even maintain themselves on the Slovene political scene?

[Peterle] There probably really are fewer and fewer members. How true the rumors that they have less and less money are is another question. I constantly receive reports that the former Slovene LC is well supplied with money. It will still be necessary to verify whether there has been any illegal embezzlement here. It is interesting, however, that all the banking institutions are in the hands of (former?) Communists. And the new bank, which was founded toward the end of the term of the previous Executive Council, is headed by two former prominent Communists and members of the former Central Committee, Klemencic and Cerne. Knezevic, a Communist, has even been employed by the new Peasant Bank.

[Lukic] Are Slovene journalistic circles offering a sort of obstruction to the Demos government today?

[Peterle] I would not say that that obstruction exists in journalistic circles. It is more the editors and their circles of officials. That whole group of people appointed by the former party has remained untouched. They have opposed us from the very beginning. Many people say that they do not know of any country in which the media have acted toward the government in the way that it is happening in Slovenia. Of course, the government has not been eager to introduce pressures that would jeopardize the sovereignty or independence of journalists in their work. I think, however, that it is obliged to make an

effort to establish a normal democratic structure in the media as well, in accordance with the development of democracy in Slovenia.

[Lukic] Prominent journalists were appointed to editorial positions in Slovenia by the Communists. They were selected according to certain criteria which are unacceptable and questionable today, to put it mildly. What do you think of that?

[Peterle] Those criteria of the Communists were questionable and unacceptable even earlier. Now the misfortune is that we have been left with the whole structure, which was accepted for responsible editorial and directorial positions according to the Communists' criteria. Naturally, that is a sort of brake on the development of democracy. I am not convinced in the least that people can change so rapidly that they can become democratic "overnight" and begin to work sincerely on developing democracy. It seems, however, that in addition to incorrect statements, of which there are many in any case, the times for objective criticism are also slowly coming. Differentiation among journalists will also contribute to this.

[Lukic] Is it true that under the communist rule in Slovenia, family connections and nepotism played an important role in journalism, and that people did not dare to talk about this publicly?

[Peterle] It is true, but I will not mention names. Enough is being said about that anyway. Of course, that does not only apply to the press.

[Lukic] The Slovene Communists constantly spoke about clericalism in Slovenia. What is clericalism? Does it exist in Slovenia?

[Peterle] Clericalism is one of the artificially encouraged fears that were used to frighten us during the entire postwar period. A few people were thoroughly frightened by them. It was a fear that could be called upon for assistance at any moment, and as such it was successful. These fears were used to frighten people even during the election campaign, for instance: now the right will come, the clericalist right. But nothing like that happened. The only serious clericalism after the war was red clericalism. I do not observe either black or red clericalism, but I know that there is a continual danger of authority and position in one area being misused for the affirmation of interests in another area.

[Lukic] What is your attitude toward the church in Slovenia?

[Peterle] Naturally, I always make a precise distinction between my personal status in the church as a community of believers, and my social status and political position, as well as my role as a Christian Democrat and the president of that political party. The kind of relationship between the church and politics and between the church and the party that is normal for relations in Western Europe has been established in Slovenia. In

other words, the church has its specific mission, and the political party has its own; and we Christian Democrats have made great efforts to make that distinction very clear and very precise for all our members. Otherwise, I think that the church should be provided with all the conditions required for normal activity in light of its mission, and I think that it can do a very great deal of good for society in Slovenia. In that sense, admittedly, it is still far from having all those conditions, because it is hampered by old laws, but practice in that respect is changing as well. I am thinking of the possibility of its activity in the area of social welfare and charity, and also of the possibility of its developing its own educational institutions.

[Lukic] At one time, I also wrote among you in Slovenia about how theological culture was part of the general culture of every human being. Will you introduce more classes from that theological culture in the schools?

[Peterle] I am delighted by your question, because they usually ask provocatively when we will introduce theology. We do not intend to introduce theology, but we would like to introduce more nonideologized education, which means instruction and not training about the religious dimension of human beings in a personal sense, and, of course, about religion as a social phenomenon. Without that, there simply cannot be any understanding in our society, which is defined by Christian culture in many respects. Here it is also necessary to explain the ethical and moral dimensions of religion, its expression in art, etc. We are marked by that culture, and it would be good if people were also taught about it. Of course, that does not mean that we would impose all of that as an outlook on life.

[Lukic] Can you say something about your visit to the pope in Rome? Will the holy father visit our country in the near future?

[Peterle] Obviously, not all of the obstacles to the pope's visit to our country or Croatia have been removed yet. For instance, there would not be any obstacle if Slovenia and Croatia were independent states. The pope said that he would pray for a visit as soon as possible; and he usually prays when something is wrong.

[Lukic] Slovenia wants to have its own Bishops' Conference. Now it is part of the Bishops' Conference of Yugoslavia, which is headed by Cardinal Franjo Kuharic. What could you say about that?

[Peterle] Full Slovene sovereignty also includes an independent Slovene Bishops' Conference, which would mean sovereignty in the area of the church. The Slovene Church made that demand several years ago. I also personally pointed out the importance of this during my visit to the pope, and that issue is still being considered. In a similar way, the Slovaks also requested independence for their Bishops' Conference. I think that the church will have to follow its national principles quite practically in regulating church affairs. Of course, in the event of independence, or full Slovene state sovereignty,

there would not be any obstacles at all to the independence of the Bishops' Conference. Clearly, that independence of the Bishops' Conference would not mean that our bishops and the Slovene Church would not cooperate with Croatian and other bishops in Yugoslavia.

[Lukic] Do you intend in the future to abolish any state holiday in Slovenia?

[Peterle] We have not talked formally about that yet, but there have been informal proposals to abolish Uprising Day and Veterans' Day, and to replace the former with 27 April. the question is whether there is any sense in celebrating Republic Day as the day of the establishment of the New Yugoslavia. There are also proposals that that holiday not be celebrated on two days.

[Lukic] Will street names in Slovenia be changed? The Ljubljana University will probably also no longer be named after Edvard Kardelj?

[Peterle] According to the new university statute, it will probably no longer be named after Kardelj. We are also preparing to deideologize the names of many Slovene schools, and to do the same thing with streets, where ideological violence also reigned. There are not only the streets; there are also the names of cities and mountains. There will be a lot of work in that regard; some opstinas are already preparing the first decisions.

[Lukic] Will all the criteria that meant something under the Communists (fighter for socialism, for self-management, active sociopolitical worker...) in appointing leaders in the economy, education, and health care still apply now? If they do not apply, will all those people whom the Communists appointed according to their own criteria submit their resignations and then reapply to compete for those jobs, or will they want to remain in their leading positions? Of course, that would be according to the criteria for competitive selection recognized by the developed world.

[Peterle] As far as the people in the top jobs are concerned, we have always stressed the importance of the criteria of expertise. We are not interested in who is heading an enterprise, if that enterprise is functioning well. We conclude then that the director is a good one, and no one asks about his world view or his party membership. It is immoral, however, as I have already mentioned, for entire management teams to be occupied by the Communists. I think that it is dangerous for the democratic transformation of Slovenia. We are also preparing a law on directors, on the basis of which it will be possible to appoint directors in a more correct way in the future. We are not conceiving the changes in that area in such a way that we are only demanding mass or formal resignations. Those things will be carried out gradually, and we will try to keep it from being in accordance with ideological or a priori criteria. In time we have to achieve some sort of normal standards there as well.

[Lukic] Will there be any returns of the property that was unjustly taken away from inhabitants of Slovenia after World War II?

[Peterle] A commission has been established at the Secretariat for Justice with the difficult task of preparing decisions on how to correct the injustices committed after the war. It should be stated that there is property of varying origin, that all sorts of things have happened, that property has changed owners several times, that investments have been made in it, and that there will be an abundance of legal problems in returning that property. All of that is still in progress. Now there is very little possibility of that property's being returned directly and without major difficulties.

[Lukic] A lot of property was taken away from the Slovene Church. Do you have anything to say about that?

[Peterle] The church is among those from whom a lot of that was unjustly taken away, and some sort of solution has to be found for it as well, to correct those injustices. A possibility is also being offered there of at least partly avoiding an unnecessary return of property, by arranging the equivalent value of social and health insurance for priests, which has been a major problem during the entire postwar period.

[Lukic] I have published columns in your TELEX in Slovenia for years, and during the last 10 years I have had an occasional column in NEDELJSKI DNEVNIK, "We Among Ourselves (Unofficially)," and so I can say that I am familiar with journalism in Slovenia. I must say that it seems to me that correspondents from Slovenia are not following the work of the Demos government closely enough. How do you view that?

[Peterle] I have the impression that interest in Slovene developments, including the government's measures, is nevertheless increasing. Of course, I could not say that of the Serbian controlled press, which provides visibly less coverage of Slovene problems. On the other hand, foreign correspondent networks are becoming more and more interested in us, and this is naturally very significant and even praiseworthy. It could be said that the foreign media have a professionally more correct attitude toward us than domestic correspondents do.

[Lukic] How is your government cooperating with the government of Stjepan Mesic (and now Josip Manolic) in Croatia?

[Peterle] The Slovene government has regular contacts with the Croatian government. It is a government with which very correct coordination and cooperation is possible, and that cooperation makes me very happy.

[Lukic] What is the cooperation between Demos and the HDZ [Croatian Democratic Community] like?

[Peterle] Friendly contacts, and especially political ones, have existed between Demos and the HDZ for a long

time. Now they have been formalized through the government structures in which both Demos and the HDZ are involved, so that interparty contacts have even become sort of secondary.

[Lukic] Do you think that Slovenes will perform their military service in Slovenia soon?

[Peterle] Defense Minister Jansa and I had talks three times in Belgrade, and negotiated on increasing the percentage of Slovene recruits serving at home. We did succeed in that to a certain extent, but the goal set by the Slovene Assembly was not achieved. Nevertheless, I think that the door is open for further negotiations. It seems more and more that Yugoslav developments themselves, which show that a multinational army according to the present concept will no longer make any sense in Yugoslavia, are leading to that outcome.

[Lukic] Are you satisfied with the talks with President of the SFRY Presidency Borisav Jovic in Belgrade?

[Peterle] As an advocate of dialogue, I am pleased in principle that those talks took place, and that a direct conversation was possible. But I am not pleased by what President Jovic brought with him, i.e., the Draft Law on Secession, which is unacceptable, and which cannot be accepted in view of political interests in Yugoslavia, and is not feasible just for that reason. I am also dissatisfied because Jovic, as I saw it, insisted too much on a legalistic principle, and gave too little consideration to the fact that life has already long ago made the legal order in Yugoslavia obsolete.

[Lukic] You travel around the world. You were in the United States. How does it view Yugoslavia?

[Peterle] I travel a relatively great deal around the world, but I think that it is still too little in view of Slovenia's foreign policy needs. When we talk about how the United States views Yugoslavia today, we have to take into account the fact that there are several groups involved that we can take into consideration. Official policy is one thing, and our Slovenes are another. Slovenes, it may be said, are strongly in favor of democracy and an independent Slovenia, or a Yugoslavia in which Slovenia's full sovereignty would be guaranteed. The official U.S. policy does not support those two goals. It supports democratization, and it is in favor of a united Yugoslavia. We, of course, said that there can be a great contradiction between those two goals in Yugoslavia, and that a united Yugoslavia does not necessarily mean democratization, while democratization does not necessarily mean a united Yugoslavia. I think, however, that the way America pictures Yugoslavia has been changing recently, and that the administration there now has the correct facts concerning Yugoslavia.

[Lukic] Could you say something about the cooperation between Nova Gorica and Gorizia?

[Peterle] The thing that particularly interests me about that idea is the fact that it still has not occurred to its

initiators, who are in power—and in Nova Gorica they are all former Communists—to inform the Slovene government or the Parliament about it, or to seek agreement or consensus on it from the internal government structures within the Gorica opstina itself. I think that the entire matter is to a considerable extent a private and unconfirmed initiative from Mr. Pelhan himself, and so I am only taking note of it as such. One cannot make any fundamental contribution to accelerating cooperation in that way. Obviously there could be cooperation, and such cooperation between the two Goricas would be useful and I support it.

[Lukic] The Austrians are demanding that the Krsko nuclear power plant be closed. Many people in Slovenia are also against the operation of that nuclear power plant of ours. What do you think about it?

[Peterle] A great deal could be said about Krsko, from the expert preparations for the construction of the power plant to the issue of city planning, and finally the policy in connection with this. The Slovene government is in favor of closing the power plant by 1995, relying, of course, on the promised assistance from Austria, and also taking into account Croatia's energy supply. That, however, is a matter not only for the Slovene government, but also for all of Slovenia, which has to decide on this in a referendum.

[Lukic] I have written a great deal about Prof. Joze Krasovec, a doctor of science with four degrees, who is translating biblical texts from Hebrew and Greek into Slovene, with a team of prominent experts on the Bible and linguists. Why isn't the Slovene public sufficiently familiar with geniuses of Slovene science and culture like, for example, Prof. Joze Krasovec, a theologian?

[Peterle] I must say that Prof. Krasovec has also been presented to the Slovene public through the media, but not in the same way and with the same emphasis as some other figures outside of the circle to which that well-known theologian belongs. There is no longer any mystery about why the Slovene public has not been better acquainted with that person. Specifically, several years ago Joze Krasovec had trouble because of a statement of his in a Catholic lecture, and was even brought to trial for it. The case of Dr. Krasovec is a characteristic one: People of other beliefs have also experienced injustice in our country.

[Lukic] What does the reconciliation of all Slovenes that took place in Kocevski Rog mean to you?

[Peterle] I consider the reconciliation event in Kocevski Rog to be an important event for the entire Slovene people. Of course, I also consider it to be only one of the steps necessary on the road to a new, better coexistence among Slovenes. That step will naturally encourage other steps in the reconciliation process.

[Lukic] Will the Theological School in Ljubljana become part of the university?

[Peterle] The Theological School will certainly become part of the university again; that is quite certain. I assume that it will happen upon the occasion of the adoption of the university's new statute, but I doubt that the Theological School would want to become part of the "Edvard Kardelj" University.

[Lukic] How can education and health care be developed in Slovenia? They are facing a considerable crisis.

[Peterle] We want to develop both education and health care on the basis of the models that are functioning successfully in Western Europe. With education, of course, there is the separate issue of deideologization, and we will have great difficulties there, because obviously health care and education will have to share good and bad with the economic situation, i.e., with the success of our economy. We are working on new legal regulations there. The law on the area of health care will be prepared as early as October.

[Lukic] Will you allow private schools and private hospitals?

[Peterle] Private schools will be allowed, and private hospitals as well, I assume.

[Lukic] Would you tell us something about your private life, since "ordinary people" outside Slovenia are not sufficiently acquainted with you?

[Peterle] I am one of those who have lived in public anonymity for 20 years, although I was the managing editor of REVILJA 2000 for 15 years. That is a magazine for opinions, art, and cultural and religious issues, which appeared in 1969. Then for several years I was the editor of TRETJI DEN, a religious magazine for students and intellectuals, and a great deal more. But we did not enter the awareness of the Slovene people through the social media, because the "big" media did not report on us. I could even say that people outside Slovenia, for example in Austria and Italy, knew me better than those in Slovenia, because the media there made an effort to present me to them. In Yugoslavia, BORBA broke the ice by publishing the first interview with me outside Slovenia. As for my personal identity, here it is: I was born in 1948, I studied geography, history, and economics, and for years I was a researcher in the areas of city planning, planning, and environmental protection. For the last four years I have been an adviser on environmental protection in the Republic's administration. I am married, and I have three children. I like to ride the bicycle, and I am interested in the life of our people outside Slovenia. What else can I say—I have little private life left. Don't ask what my wife thinks about that.

[Lukic] Are we close to a peaceful settlement of the crisis in Yugoslavia, or will the crisis be intensified even more?

[Peterle] I think that a peaceful settlement of the crisis in Yugoslavia is more and more remote, and from all indications it seems that the crisis will be intensified further.

[Biography] A hundred days have passed since the candidate of the Demos united opposition, Lojze Peterle, came to head the Slovene government; until recently, he was quite unknown even in Slovenia. Who is Lojze Peterle, really? He was born on 5 July 1948 in the small town of Cuznja Vas in the Trebnja opstina in Dolenjska. He graduated from secondary school in Novo Mesto, and at the Philosophical School in Ljubljana, he received a degree in geography and history. He also completed the first level at the Economic School in Ljubljana.

After his studies, he was employed at the Slovene City Planning Institute, and for the last four years worked in the Social Planning Institute. In April 1989, Lojze Peterle was among the founders of the Slovene Christian Democratic Party. At first he was the party's secretary, and was soon elected president of the Slovene Christian Democrats.

It is interesting to note that at the constitutive meeting of the Slovene Parliament, Lojze Peterle received 80 percent of the votes of all the deputies. That demonstrates that many representatives of the parliamentary opposition also gave their votes to him as the Demos candidate for the office of Slovene prime minister. Let us also mention that Peterle's government itself was voted in with 65 percent of the votes of the deputies in the Slovene Assembly. It is obvious, at least from the results of the voting, that the Slovene Parliament had more confidence in Prime Minister Peterle himself than in his ministers.

President of the Slovene government Lojze Peterle recently returned from a visit to Czechoslovakia. He also visited Rome, where he was received by Pope John Paul II. Before that he had an important tour of America, and he often goes to visit Carinthia in Austria. That is part of the extensive foreign policy offensive of the new Slovene authorities, which gained what was among the most significant support for their work and political orientation from the visit to the pope. In addition to all this, Peterle comes to the Republic Assembly to listen for hours to the delegates and answer their questions, and his most significant activities, of course, include his relatively frequent meetings with the president of the federal government, Ante Markovic, and other federal officials.

At this time Peterle is the busiest Slovene politician. He obviously handles himself well on both the domestic and foreign policy scenes. Perhaps it was a little unusual even for the inhabitants of Slovenia themselves that for the first time after the 45-year absolute domination of the Communists, a non-Communist, a member of the Christian Democratic Party, has come to power.

Along with his government, Lojze Peterle has inherited numerous problems from the Communists, especially in

the Slovene economy. The situation is no better in health care, education, or the ecology. Slovenia is being shaken by scandals, accompanied by true economic and social scandals. In spite of all the problems faced every day in its work, however, the Demos government, headed by Lojze Peterle, is so far making positive progress in its work.

In response to a statement by one journalist that the holy father, in his letters to youth, had frequently mentioned the importance of lay movements and societies, and in response to a question about how he viewed the role of those movements and societies in Slovenia, Lojze Peterle said:

"Yes, I see great significance there and a need for such actions and movements. We also have quite different groups in Slovenia. It is not a question of whether the pope says so or not; it is necessary, because the moral level is poor. We here already have the "POT" [Path] movement, which is led by Vinko Kobal. That movement already has a tradition of several years. Then there are various student theological groups, which are assembled in the Inter-Bishop Committee for Students [MOS], so that there is some life there. There is still a lack of a social and political view, and considered social involvement on the part of Christians. That is fairly well-known here. I also think that it is very important to establish as many such centers as possible for a new lay spirituality, with the laymen having as much autonomy as possible in that process. Those movements should function quite separately, however."

Obviously, with Lojze Peterle's coming to the office of Slovene prime minister, some new winds are blowing which are trying to bring Slovenia as close as possible to that highly developed and civilized Europe with which, as Demos says, we did not become familiar under communist rule, either in Slovenia or in other parts of Yugoslavia.

Increased Possession, Trade of Weapons in Croatia

91BA0076A Zagreb *DANAS* in Serbo-Croatian
23 Oct 90 pp 28-29

[Article by Jasna Babic: "Everyone His Own Sheriff"]

[Text] In the Republic of Croatia, a citizen does not even need a certificate of his mental health to obtain a permit to purchase and then carry a weapon. Even under the 1974 Republic law the decision depends as a rule on the discretionary assessment of the "competent agency," and since the "competent agency" has recently been much more liberal in the entire republic than earlier, at this point even a brief written request on any grounds whatsoever is sufficient to obtain a permit.

Thus, between 1 and 18 October of this year the Secretariat for Internal Affairs in Osijek received 500 private applications to purchase, that is register, weapons. In just the first 15 working days of this still unfinished month,

they have requested more than half of all the gun permits applied for in Osijek in all of 1989. The situation is similar in Zagreb. Up to July 1990, the number of applications did not exceed the average for last year, and then in August the Zagreb police began to receive piles of applications from people who wanted to buy guns and pistols. For the sake of comparison: 4,960 in all of 1989 and 50 percent more than that in just the first nine months of 1990.

Although the Ministry for Internal Affairs of the Republic of Croatia still does not have a full report from the entire territory of the Republic, it can be said with sufficient confidence that in the opstinas of Zadar, Sibenik, and Drnis, places within range of Knin Krajina, the rush for permits has been even greater. Commissions of Secretariats for Internal Affairs have been so busy in recent days that the issuance of permits to purchase weapons and gun permits has been returned to the jurisdiction of public security stations in spite of centralization of the police by the government. Whereas once they were visited by passionate hunters to register the guns with which they go after game large and small, today it is usually pistols of all the well-known calibers being registered; allegedly to protect life and property against possible assaults on them by other people.

The Montenegrin Connection

In a very short time, then—between the two Serbian rebellions—Croatia has become one of the best-armed federal units. Not counting military and police arsenals, nor weapons possessed and kept by "juridical persons," government and public business institutions, i.e., civilian institutions, at this moment 186,000 of its citizens possess 267,609 long and short-barrel weapons, along with an undetermined amount of ammunition. We should mention as of particular interest that only 3,392 of those weapons have been registered in the "militaristic zone" of Knin. When this number is divided by the population of Knin, the statistical indicator indicates a somewhat higher number of weapons than the Republic average, but it is still very difficult to explain the phenomenon of armed sentries in Knin, barricades, ambushes, and the entire Dinarid Division. In the Republic, for example, not a single automatic rifle owned by a civilian has been registered—formally: only a few trophies from World War II—while it is evident there on the barricades, even with the naked eye, that this type is represented in considerable numbers in the local armament. Some, there is no doubt, were stolen back in August from the arsenal of the public security station there, but the origin is still not known for most of them. Only certain pieces of circumstantial evidence indicate a trail of smuggling that leads into fraternal republics, and much further than that....

That is, it began as a rumor: that a truck with weapons that arrived in Knin via Bosansko Grahovo originated in Montenegro. No one has denied this except the Republic Secretariat for Internal Affairs of Bosnia-Herzegovina, which is responsible for the Grahovo highways. But no

one has confirmed it either. The other day the noncommunist Belgrade paper NEZAVISNE carried a purportedly quite reliable report that a vessel with an entire shipment of automatic weapons manufactured in Israel had anchored off the Montenegrin coast with the tacit consent of the Montenegrin police command. It even identified the model, the typical UZ16, a small weapon with high firepower, one which in the United States of America has been put on the list of weapons which individuals are not permitted to possess. NEZAVISNE goes on to assert that two such specimens were confiscated in Montenegro itself, while an Israeli automatic weapon was offered to one member of the crew of Titograd Television in Knin, along with 700 suitable rounds—at a price of 4,000 marks.

To Register or Not

Be that as it may, it is quite certain that the actual armed potential of Knin Krajina is quite different from the per capita number of gun permits. Although there is no mathematical method of effectively estimating the wealth of illegal arsenals, we can make a confident guess that it comes close to, if it does not actually exceed, the weapons in Kosovo, which amount to "only" 65,000 rifles, shotguns, and pistols. The people in Knin, that is, even with the blessing of federal peacekeeping commissions, are proudly displaying automatic weapons which belong to the reserve corps of the Republic police, while at the same time the Kosovo Provincial Secretariat for Internal Affairs has been reduced by 3,000 workers of Albanian nationality and their requisite quantity of police weapons. It is less well-known that this occurred at the end of August of this year, that the Serbian authorities, just like these Croatian authorities, initiated an identical action at almost the same time in moving police armament. But the outcome was certainly utterly different. The Serbs in Croatia have raised a rebellion because of it, defending "their own" public security stations, "their own" police, and "their own" arsenals. At the same time, Serbia has been implementing a very similar armament plan step by step, quietly, without any noise, by creating an ethnically pure militia in the southern province. Immediately thereafter, the Serbian state opened up a new campaign: The search for illegal Albanian firearms, while the Croatian minister Boljkovac issued an appeal imploring the Serbs of Knin to at least register their newly acquired property, all those weapons which in the meantime they have received in the form of anonymous fraternal assistance. This time the result was quite mixed.

The Serbian police have received from the Army small tanks and armored cars and it got back at Croatia by placing demolition charges on the railroad lines, by wounding "custodians of law and order" in Drnis, and later by breaking into railroad cars carrying military equipment and weapons. One car was taken near the Knin Kosovo with the entire train, and another was taken right in the Knin station. But since it is the Army after all that is involved, the Yugoslav People's Army, which is almost a sacred institution for the Serbs in Croatia, some

of that equipment was found very quickly thanks to anonymous information from the people of Knin themselves. Nevertheless, by all appearances Knin Krajina still remains a well-armed self-isolated fortress in which a bullet is more valuable than bread.

At the same time, this refuted the theory of the Croatian Ministry of Internal Affairs that a more liberal practice in issuing gun permits reduces the number of "firearms" smuggled and their illegal possession. In a Yugoslavia beset by internal squabbles and skirmishes, which itself is coming to look more and more like Kosovo, and in Croatia, which for two months now has been occupying less than 60 percent of its own territory, firearms are looked upon as the last guarantee of security, although a false one. If one is to judge by the goods smuggled, the long-lasting Kosovo crisis began in the same way with a hunger for short-barrel weapons, and here today, nine years later, 20 Kalashnikovs supposedly intended for "Albanian separatists" were discovered under the false floor of an automobile at the Italian-Swiss border. The smuggler was an Albanian, and Tanjug, along with representatives of the Yugoslav Republic which is dominant at the moment, concluded that the Albanians were also its ultimate purchasers, although the "black market" is the only remaining market in this country which does not recognize ethnic prejudices. Last year, a large network of arms smugglers was discovered in Niksic; it was also making sales in Kosovo, but the group of smugglers was entirely made up of Montenegrins themselves. To make the story still more instructive, they were a dozen Niksic policeman, one of whom was employed in its Secretariat for Internal Affairs without waiting his turn since he was a refugee from Kosovo and the victim of violence of Albanian separatists.

The Example Set by the Deputies

Thus, the traumatic disintegration and equally traumatic continuation of Yugoslavia is truly a lucrative business for those with quick wits and enterprise. The underground merchant earns a commission between 500 and 1,000 marks for the cheapest pistol. What are the earnings, then, of the private arsenals in Austria, a friendly neighboring country which otherwise, so we hear, is very concerned about the proximity in time and place of the new "Balkan wars"? And not only Austria, but many other European states are also engaging in a carefree trade in arms which end up in Yugoslavia. Under one condition: that those weapons, once purchased, absolutely do not remain on their territory. That is why they helpfully escort the Yugoslav purchasers and smugglers to the first border crossing.

Nevertheless, in the Ministry of Internal Affairs of the Republic of Croatia they say that Croatia still differs as a "black market" from the southern province of Serbia. Kosovo, they say, is still the main terminus here for smuggling routes from the West toward the East, while

Croatia, along with Slovenia, is mainly a transit area. Groups of smugglers have been arrested here who were smuggling between two and 14 pistols on one trip. Most of them are discovered at border crossings, and so we can conclude from this that at least among the Croats the actual number of weapons is close to the number of gun permits. But what else could they say in the Croatian Ministry of Internal Affairs, which in spite of the increased number of its own operatives has not managed to suppress the sense of the population that their own pistol is their last hope of defense and that it is better to be one's own sheriff? There is yet another symptom to support that. During communist rule, weapons were above all a matter of status. According to observations in the Zagreb Secretariat for Internal Affairs, applications for gun permits would increase like magic every fourth year when there was a change in the top leadership of the party and government. Every new top dog wanted to back up his power with a short-barrel weapon. There is no doubt that many of those habits of the militant rulers have been inherited by the new party in power; those 40 or so pistols found on people entering the Croatian Assembly on the eve of the last parliamentary session are more indicative of how out-of-date the deputies are than of any real personal threat, even if some of them did travel to Zagreb via Knin Krajina.

It is still more interesting that in neither the Republic Ministry of Internal Affairs nor the Zagreb Secretariat for Internal Affairs were we able to obtain an answer to a very simple question: Do deputies in the Croatian Assembly of the new Croatian state have the same special treatment as to weapons, were these their private weapons, or were they made available to them as persons of particular interest from the security standpoint? The story is circulating in the corridors of the Parliament that a written recommendation was recently drawn up about arming them, but we still do not know on the basis of what enactment, still less which republic or federal law. The recommendation was allegedly inspired by those same ethnic interests which moved the Croatian Democratic Community [HDZ] to help the "competent agency" recruit young policemen: Interested recruits applied to the HDZ chapters, whose secretaries drew up lists, and then they sent them to the appropriate commissions in Secretariats for Internal Affairs. These were just small favors to the overburdened police agencies—as this practice, which is without precedent in an allegedly "law-governed," and by no means police state, was justified by the chief of one police station. It is obvious: The ruling party has perceived Croatia in exactly the same way as the Knin Serbs perceive Knin—exclusively and only as "their own," exclusively and only as their own object of concern and to that extent also object of their government. And that is why, while peace is preached, they behave as though civil war was just a matter of days away. How, then, can one expect ordinary citizens to be any different? Armed and rebellious Knin is only the other side of the same Croatian story.

HUNGARY

Volunteers May Be Sent to Persian Gulf

91CH0110B Budapest MAGYAR HIRLAP
in Hungarian 11 Oct 90 p 3

[Report by F.A.: "Provisions by the Saudis? Only on a Voluntary Basis Should Soldiers Be Sent to the Gulf"]

[Text] The Defense Committee of the National Assembly regards as very important the debate over committee Vice Chairman Bela Kiraly's recommendation to send volunteer military units trained under the United Nations aegis to the Near East. The Committee finds it necessary to call a joint meeting of the Defense and Foreign Affairs Committees in the near future, in order to discuss the proposal with the involvement of appropriate government officials. The National Defense Committee of the National Assembly resolved to call such a meeting.

In the course of the meeting Bela Kiraly justified his proposal by saying that the unit to be dispatched to the Gulf should be organized strictly on a voluntary basis, and should be recruited from the ranks of professional, enlisted, and reserve personnel. Kiraly also told the Committee that according to information he received, the Saudi government would provide supplies to the Hungarian unit, and weapons would be provided by the United States of America. Kiraly further explained that Hungary's neutrality, insofar as neutrality is declared in the framework of the new military doctrine, would not conflict with participation in the United Nations peace-keeping force. To the contrary: Becoming part of such forces is the eminent function of a neutral Honved force. Kiraly agreed that with respect to this high caliber issue soliciting the cabinet's opinion was important, at the same time, however, he made clear that this should not be construed as a constraint on Parliament to make initiatives.

Military Compensation, Mercenary Alternative Viewed

91CH0110C Budapest HETI VILAGGAZDASAG
in Hungarian 25 Aug 90 p 19

[Article by Akos Tomory]

[Text] Where are the soldiers, the staff officers of the Hungarian Honved Forces may ask each other. Not too long ago it was revealed that as compared to previous years' reduction of between 450 and 550 persons—which may be viewed as a balanced situation, personnel reductions in the first half of this year amount to more than three times as many officers and noncommissioned officers as in previous years. The reason for this reduction, it appears, may be traced primarily to financial considerations. Serving in the army is no longer only "bad business" for enlisted men, it does not pay for professional soldiers either.

Enlisted persons receive an "allowance" in addition to food and lodging. The allowance depends on rank, and amounts to between 780 forints and 1,150 forints per month. This amount is supplemented by an additional "assignment-related allowance" of between 300 forints and 900 forints, but only in exceptional cases. In addition, soldiers are entitled to obtain a one-time support payment at the time of discharge. The amount depends on the soldier's social welfare situation and the decision of the commanding officer, of course. It ranges between 1,500 forints and 3,000 forints. Disabled or dependent family members of enlisted men may receive assistance: Since 1 August the earnings of a wife with one child are rounded up to 4,290 forints, and this amount is increased by an additional 3,000 forints per child. But family support funds do not burden the military budget, such payments are made by local councils.

The situation is substantially more complex and colorful regarding benefits provided to professional soldiers and civilian employees. As of May 1990 the average gross basic pay for officers amounted to 22,700 forints. The net value of this pay may be calculated at 15,700 forints. "Moonlighting," which could provide added income, is not exactly an accepted practice among officers. Last May the average gross earnings of noncommissioned officers amounted to 15,800 forints, while civilian employees grossed 12,300 forints on an average. The so-called 13th month's pay is perhaps the most significant benefit. Generally it is granted automatically to persons whose "primary occupation is to serve as military officers" and to civilian employees. The so-called clothing allowance granted to professional soldiers amounts to an annual sum of 19,100 forints, but the largest part of this amount is not provided in the form of cash, but as vouchers exchangeable in military stores.

Countless smaller payments exist. One may take advantage for example of an average moving allowance up to a maximum of 16,500 forints; a one-time moving assistance of up to 4,000 forints may be claimed; the maximum amount of special assistance is 8,000 forints. But awards also exist, and so does onetime social welfare assistance which in the case of large families (with a net income under 5,200 forints) amounts to between 2,000 and 3,000 forints per dependent family member. Persons starting their careers may receive interest-free loans ranging between 10,000 and 15,000 forints for the purpose of establishing a family. Such loans must be repaid within a maximum of four years.

Unquestionably, housing is the greatest force which attracts people to the military. The situation, however, is by far not as rosy as many would think it is, according to a Hungarian military leader. In certain districts there indeed exist vacant service quarters, in other places, however, there is a two to three-year waiting period, according to Colonel Istvan Varhelyi [as published], the business and financial head of the Hungarian Honved Forces. In addition, the military tenant must pay rent just as civilians, even though military persons who rent housing are exempt from paying the user entry fee.

Housing cost increases strike the military stratum the same way as cost increases in housing managed by councils burden the tenants.

As of today it appears despite the benefits, military life is not particularly attractive. There is an increasing number of young officers who would like to pursue as civilians their professions "registered" in civilian life. Although it is possible that come next year we may become acquainted with a new type of soldier: with

officially "contracted personnel," the Hungarian mercenary. We are under constraint, because in certain military fields, such as in domestic air defense or at the armored divisions, a one-year tour of duty is not long enough to fully train soldiers performing given duties, we are told by the Hungarian Honved Forces. According to preliminary calculations the pay of "hired soldiers" would be the same as that of a starting noncommissioned officer. The question is, however, how many discharged soldiers will feel that it is worthwhile to continue to serve in the military for a gross pay of 9,200 forints at today's prices, Colonel Vasarhelyi [as published] said.

CZECHOSLOVAKIA

Klaus Defends Radical Economic Reform

91CG0062A Duesseldorf WIRTSCHAFTSWOCHE
in German 19 Oct 90 pp 77-86

[Article by Vaclav Klaus, CSFR minister of finance: "True Liberalism: Partial Reforms of Eastern Socialist Economies Worsen Rather Than Improve the Situation"]

[Text] Today the new governments in East Europe face the unique task of converting their economies into market economy systems. However, on this road they have to remove numerous obstacles. One of the most important barriers is the lack of understanding among the public for the fundamental economic causal relations.

There are many today who criticize the reform efforts. This criticism is based on many misunderstandings. In part, today's adjustment problems are ascribed to the government. Among the critics are also various reformers from the 1960's, who have meanwhile returned from exile. Some also hold the opinion that one must apply expert knowledge today in order to be able to implement the necessary changes. The adherents of such technocratic approaches do not understand, however, the role played by the invisible hands of the markets in economic progress. Criticism of the present situation produces a climate of discontent and disappointment.

Which strategy must be applied meaningfully in order to reform a country's economy depends essentially on the starting conditions in the respective country. It depends on both the economic situation and the political-ideological system. But the reform policy in East Europe can be judged correctly only if one keeps in mind what the starting position had been in the CSFR and the other states. Indeed, there are many misunderstandings on how the centrally planned economies had actually functioned.

It is often overlooked that the situation in East Europe differed considerably from the textbook model of a centrally planned economy. In the literature it is imputed that the economy of the East European countries was centrally managed by higher authorities.

The reality, however, was different. The inefficient, wasteful, and environmentally destructive economy was a diffuse and unstable mixture of vertical and horizontal relations between the government on the one side, and the enterprises and the consumers on the other. Complicated relations also existed between enterprises, between consumers and between enterprises and consumers.

The textbook depiction of centrally planned economies is misleading because it totally overestimates the importance of the central planning committee, the monopoly bank, or the annually repeated planning ritual. It simply ignores the numerous fundamental changes, part of an

evolutionary process which began shortly after the introduction of central planning.

It is incorrect to describe by the concept of planning the numerous interventions by the state in economic life. In reality they were often arbitrary, disconnected ad hoc measures.

The former government was not a coherent unit: In reality it was even then, as is today's government or the governments in the West, only the sum total of individuals or interest groups competing with each other. This led to the situation where a small group succeeded in gaining temporary advantages for itself—at a high price for the rest of society.

The government's power was limited because, as a rule, the enterprises held a monopoly position in their markets, giving them extreme power. In addition, the system put the enterprises in a position to procure income not based on their performance, such as high subsidies.

So Hungarian scientist Janos Kornai is correct that the plan requirements had not functioned as a one way street, even in the strictest phase of centralization. In reality, negotiations between the planners and the firms directed by them played a big role.

Therefore, I agree with Milton Friedman that although a socialist economy is very distorted, it is nonetheless a market. A market must not be equated with an undisturbed price mechanism. A market is not identical with perfect competition. As in the Western market economies, the conduct of firms and budgets in the East was guided by prices and income.

Despite these modifications, the damage done by the prior system was great. Although the importance of the state has diminished in the course of time, this does not mean that it has become less counterproductive and less paternalistic.

Prices were not based on voluntary decisions by the bureaucratic apparatus, as was often imputed. They were the result of a great number of mutually balancing forces. Nonetheless they distorted the economic process. Rational decisions were made more difficult. It was not possible to meaningfully distribute the production factors.

The present situation is burdened by the fact that the politicians in the past intentionally set prices too low. That caused an artificial shortage of goods. Because the planners were in a position to distribute the shortage, they succeeded in enriching themselves personally. Thus, this imbalance corresponded to the planners' personal interests.

Today's efforts to convert the economy as quickly as possible must be seen against this background. Our intentions are clear. In no way do we wish to repeat the mistakes of the 1960's.

At that time we attempted to introduce a mixed system between central planning and a market economy. We are not at all interested today in a third way. The third way is the quickest way to the Third World.

It is our goal to convert the state-dominated economy into a system based on private decisions. By all means we want to avoid the mistake of wanting to influence the economy from above.

We are increasingly convinced that our country—or any other—is less unique than is often imputed. Certainly: There are some specific characteristics and differences. But there exist more things in common than differences. The fundamental economic laws are valid beyond all continents and economic systems.

So we start from the premise that a partial reform is worse than no reform. That much we learned from the 1960's. A partial reform in a distorted economy is an enormous and dangerous mistake.

We cannot wait, however, until an all-encompassing blueprint for reform exists. Were we to wait for a fully elaborated and intellectually perfect reform project, it would mean postponing reform until the end of time.

To postpone reform would mean bringing about a chaotic breakup of the economy as we are observing today in the Soviet Union. To wait, in our situation, means to fall into a "reform trap."

It is now a very decisive concern to plan different fundamental reform steps in the correct sequence. For that it is not necessary that we understand all details. Furthermore, it is also not necessary that we possess all the data for all the possible scenarios.

I like to compare the transformation process to a chess game. In order to play chess, one must know the rules, the significance of the men on the chessboard, and opening strategies. But it is impossible to know what the situation on the chessboard will be after the 15th or 25th move.

The traditional reforms in the East, as carried out for decades, all proved to be traps. Essentially two reasons must be cited: One dangerous mistake was the attempt to decentralize without at the same time improving the other framework conditions. It was wrong to shift the power of decision making without at the same time reestablishing ownership of production means and liberalizing prices. In a wrong system, problems are aggravated when decisions are made by the consumers and the enterprises.

It is also of concern for a reform to establish the correct overall economic framework conditions. A restrictive monetary and fiscal policy is the precondition for any successful reform.

For this reason, the budget surplus for 1990 sought by us is a very important prerequisite for the success of the entire reform process. At the same time we also decided

on a very restrictive monetary policy. Namely, we determined that the growth rate of the money supply will be zero. A further serious obstacle to a successful conversion is the lack of transparency of the economic connections which still exist in a former centrally planned economy.

The economic decision makers, that is the government, consumers, and enterprises, act blindly in two areas above all: in ownership rights, and prices. We have learned that reform can be successful only if ownership rights are rapidly transferred from the state to the citizens.

When the centrally planned economy began to collapse, we witnessed a chaotic, extremely inefficient and unjust privatization process. We have no more time for waiting. Therefore we have created a special commission. We call it the commission for temporary management of state property and its privatization. It developed the basic concept of how public enterprises can best be transferred to private owners.

Our privatization concept consists of two steps:

The first step consists of bringing state enterprises into a form that can be privatized. In this, the enterprises are converted into stock corporations. The shares remain the property of the state for the time being.

In the second step, the shares are sold to the public in an auction procedure. Important questions are linked to this: Who are the private investors? How much is being sold, and at what price?

We have chosen a very specific way to solve the problems. Since domestic capital is lacking, we increase the wealth of the population and give part of the state property, in the form of vouchers, to the population. Only in the next step will it be possible to exchange the vouchers for shares.

The reforms can be successful only if property rights are converted early on. In any case, the chaotic privatization we are observing today is to be made orderly.

It makes no sense to privatize five percent of the state property in two years, five percent in 10 years, and five percent in 15 years, as was often practiced. We must start with the large share of enterprises and transfer them to private hands in a very few months. All other options are not capable of functioning.

However, privatization alone is not enough. Accompanying steps are of importance. Relative prices must also change in an early phase of the reform.

We proceed from the premise that only a very small part of the prices can be changed through a centrally organized price correction. Most of it must be done by the invisible hand of the market. So we shall liberalize prices and then leave it to the markets to find a level. We intend to start with it at the beginning of 1991.

Since we are breaking totally new ground with the reforms, we are confronted by many questions and doubts. We are very sure how prices are to be liberalized and how the restrictive monetary and fiscal policy must be handled. But we are not at all sure whether we should first promote the market or liberalize prices. It is obvious that it would be counterproductive to adjust and liberalize prices before the consumers and enterprises have the chance to react to incentives, such as changes in income and property.

A further problem we must tackle is the sequence in which to reorganize domestic industry and liberalize foreign trade. But it is certain that the exchange rates must be made flexible and convertible in a relatively early phase of the reform process. We hope to manage that already by the end of 1990. The reason for it is that the present exchange rate makes it impossible to remove import controls. Reorganization of domestic industry will take much longer, however.

Such questions are very pragmatic. We do not know how quickly industrial production will react to our reform. For the time being, a certain drop in industrial production has been noted. In addition, there is another great problem. Namely, we do not know how to curtail the capacity of a few persons to draw enormous profits from the distortions when the controls are removed.

There is no other way to answer such questions except to proceed pragmatically. True liberalism means not to organize social reforms, but only to promote them. I do not pretend to have all the solutions to the problems. I see my own mission above all in blocking wrong political decisions. Reforms in a society looking for income without performance are a very dangerous undertaking. After 40 years of bad experiences, we can no longer afford to place our fate in the hands of irresponsible intellectuals.

[Photo caption] Demonstration at Prague's Wenceslas Square: The government must relinquish power.

Middle Class Creation Necessary for Success of Reforms

91CH0034E Prague LIDOVE NOVINY in Czech
18 Sep 90 p 9

[Article by Milos Zeman: "In Praise of the Middle Class"]

[Text] Incomes are leveled to a significant degree in Czechoslovak society. It has been stated that about ten percent of the population, mainly older people, but also some families with small children, live below the poverty line, while another approximately ten percent (usually people associated with the previous government) can be considered rich. The remaining 80 percent are characterized by insignificant salary differences, which naturally obscures desired differences in work performance.

Almost none of our citizens, at the same time, has had any real chance to turn a part of his earnings or savings into real capital, investments that can generate profits and wealth in economic circulation. From this viewpoint we have all been proletarians regardless of whether we own cottages or cars. The inability to start a business killed off mainly a social class, the class capable of economic initiative and in some instances forced them to adopt forms considered illegal. An important question is whether this class has completely died off in the past 40 years or whether it will be possible to resurrect it.

I am of the opinion that what we need the most for truly successful economic reform is the creation of a middle class. These are people willing to devote a large percentage of their income to running a business, i.e. to capitalize their incomes, even if this substantially decreases their level of immediate consumption. I therefore consider the expected rapid growth of domestic big business men to be an illusion. We are lacking the fertile soil created exactly by a middle class, by small and midsize businesses and entrepreneurs.

From this standpoint even the privatization process should be focused mainly on forming a middle class. One possible way to do this would be to take the following steps.

1. Evaluate existing, usually separate, local production units based on the residual value of their capital assets (to approximate their level of depreciation) and the value of their inventory. These statistics are available, and could be obtained fast enough so as not to slow up the privatization process.
2. Offer small operations, or potential small operations (represented by the value of unutilized nonhousing space), with a precondition of individual ownership, to domestic entities, allowing them to pay for the facilities over the long term (up to 20 years). If there are several parties interested, sell to the highest bidder. Retain the first option rights for previous owners of small operations or their heirs, on the condition that they continue production operations, with the issue of compensation resolved separately in the courts.
3. Issue stocks equal to the value of a mbusiness, if that value exceeds the resources of the individual owner.
4. In the first year offer these stocks at a nominal price to current employees, with the opportunity to pay for the stock over a longer term.
5. After one year, offer the stocks to all domestic entities, at the market price and with shorter (e.g. up to ten years) payment periods.
6. After two years, finish selling the stock on the open market, allowing foreign entities to participate.
7. In the early stages, allow stock ownership by foreign entities in cases where there is a need to expand the initial subscribed capital (to support modernization, rebuilding, or new construction).

8. Concentrate the resources obtained gradually through privatization in a National Property Fund. This fund would be under the control of parliament.

9. These resources should be directed, under a unified long range plan, to investments in noneconomic areas where we lag farthest behind, particularly in developmental programs in education, health care, and environmental protection.

10. Route these investments through private firms based on the highest bids. This will avoid risking prolonging government ownership, for instance in the construction sector.

What would the implementation of the above program represent? On the one hand it would speed up the formation of small and medium sized businesses, where most people are employed in the developed countries. It would allow the almost immediate startup of small scale production and service businesses by sole proprietors. Loan repayment would for some time soak up excess purchasing power, and therefore the ability to impact the domestic market, thereby acting as a brake on inflation. For a number of firms this would allow them to be taken over by employee collectives, and in the remaining firms would allow the employees, to the extent they are interested in ownership, to retain a significant share of decision making power through future stockholder meetings and advisory councils. This would create the means for dealing with the catastrophic situation in our health care, education system, and ecology.

For these reasons I accord the above program significant priority over what in my view is the romantic "large school" form of coupon based privatization, i.e. what amounts to issuance of free stock. I do not agree with the Ministry of Finance which, in a recent article in *MLADA FRONTA* argued that by selling stocks to citizens we would be selling national property too cheaply, and for this reason it is better to issue the stock for free. This may sound lovely, but you can't base a serious economic policy on pretty words. The Minister of Finance is mistaken if he thinks that the sole source of resources for stock purchases would be the savings of the public. The main source should not be capitalized savings, but capitalized incomes, i.e. rather flows than states, and here, especially with long payment periods, the opportunities are much greater. This would also open the capital market in the early years because it would be possible to do business with stock that is still being paid for. A 20 year payment period might at first seem too long, but has in this country something of a tradition. Mainly, it is a realistic reaction to the fall of the past 40 years. If you have been falling for forty years, and falling is easier than rising, don't be surprised if you don't regain ground in a few short years.

Arguments can arise mainly from doubts as to whether most citizens will be willing to buy stocks and pay for them over a longer term. There are two hypotheses concerning the relative willingness to make short term

sacrifices. I belong to the optimistic wing. I idealize no one, but when their own future investments and capital are involved, not transfers to the government, I see no reason why especially the more entrepreneurially inclined citizens, the future middle class, would not play by the new rules of the game. There will of course be incompetents who are full of envy, and therefore react allergically to the upcoming property and income differentiation, but these people exist in every society and form its lowest class. Separating those capable of tightening their belts in the interest of themselves and their family from those interested only in short term consumption with no ambition to improve their work performance will only be to the benefit of the country.

In addition, economic trends can significantly support the appearance of a middle class. I consider it sensible, in contrast with the Minister of Finance, to provide increased incentives for investment and savings by making dividends and interest tax free for a long term transitional period. I would also argue, for the same reasons, for introducing or increasing consumption taxes on luxury, nonessential goods. This would also reduce the tendency to consume. These taxes, which under no circumstances should extend to capital goods, items of basic consumption, or cultural items, should form the basis of a federal tax.

My basic hypothesis, however, is that most of our citizens behave in an economically rational manner. Employees of firms with any kind of future at all will attempt to exercise their annual first option rights, in part because being a stockholder in a corporation provides some protection against the risk of unemployment (the American ESOP [Employee Stock Option Plan] functions on the same principles). Less well managed firms, whose stock will not be as easy to sell, can be sold at whatever price the market will bear. Those firms in which even foreign investors are not interested after the expiration of the deadline for sales to only domestic investors, logically become the firms that we should close.

When talking about types of privatization we are at a crossroads that leave us with at least two choices. The decision we make will be fateful in the sense that it will determine the long term growth path of Czechoslovakia. It will be difficult to turn back, both because it will be difficult to accept the fact that we made a mistake, and because there is always a cost to every such turning back. It is paradoxical that the two current opposing camps on this issue are actually joined by the same unspoken paradigm, the style of current communist thinking. One camp, declaring the necessity of concrete structural changes actually carries forward the "iron strategy", with the difference that instead of advocating building more foundries and mines we now advocate building computers, biotechnology, and robots. The concept of government paternalism that ignores actual market mechanisms does not change even with the change in the product mix. The second camp, with its maoist great leap forward of coupon-based privatization, is only replacing

one myth of popular ownership with another. In giving to everyone, it gives in fact to no one. Ownership is selective and conditional, and has a price, that price being denial and work, and actually never comes for free.

Despite all discussions of economic reform it must be stated firmly that no reform worthy of the name has yet begun here. I must admit that I am far more interested in seeing the first private parking enterprise on Wenceslas Square than in the opening of a branch of Deutsche Bank on the same square. The boarded up shops of the Old Town have not yet reopened. We are still waited on by arrogant sales people in stores and by government head waiters in restaurants.

Economic reform will come when a majority of the population looks to the stock market pages when they first open their newspapers. Praise be to this future middle class.

Problem of Increasing Food Inventories Viewed
91CH0034C Prague ZEMEDELSKE NOVINY
in Czech 29 Sep 90 p 7

[Interview with Ladislav Dvorak by Hana Kovandova; place and date not given: "What About Unsaleable Goods?"]

[Text] Employees of the Potraviny government enterprise in Usti nad Labem, who supply two thirds of the population in North Bohemia with foodstuffs, have calculated that if people would spend their allocated Kcs140 actually on food it would increase the monthly revenue of the enterprise by Kcs100 million. However, because the increased price of goods has been accompanied by reductions in business markups, which are the main source of income, yields have not changed.

If an enterprise takes in, say, an additional Kcs100 million a month, it nets the same amount as before the law. Increased sales for a food store are therefore a necessity. We posed the question of how the predictions square with reality to the deputy business manager of the firm, Eng. Ladislav Dvorak.

[Dvorak] In July our customers placed orders for just Kcs9 million more than last year. This is because prior to the price increases they did a lot of purchasing for inventories. In August the figure was Kcs53 million more than in the same period the year before. If we could significantly expand the supply of goods, I am certain that customers would spend their Kcs140 support payment in our stores.

[Kovandova] Some foods have become just about unsaleable. Which are they?

[Dvorak] On 9 July food prices were not raised uniformly. Customers are now changing their buying habits and turning to goods that have more attractive prices. This has caused a decline in demand for certain canned and frozen foods, canned meats, as well as fruit and

vegetable products such as compotes, fruit spreads, juices and ciders from domestic raw materials. Some of these products are completely unsaleable. For instance, the price of currant juice increased by a factor of four, and cherry juice by almost a factor of three. The price of Bratislava goulash in a half kilogram tin has increased from Kcs8.50 to Kcs28. Customers also are not buying mushroom products. This is not surprising since the price of mushroom salad has jumped from Kcs14 to Kcs21, and salad made from hlivy ustricne [a type of mushroom] from Kcs7.30 to Kcs14.60. We are currently getting programs ready to reduce prices on a number of unsaleable products, especially on some prepared foods and ciders. The sales will cost us about Kcs7 million, but we have to reduce the prices or we won't be able to sell the products at all.

[Kovandova] Half the goods you obtain directly from producers are items of daily consumption. What is the level of interest in them?

[Dvorak] The demand for bread and baked goods has not changed very much. Demand for whole milk has declined, while that for partially skimmed has increased. The demand structure is also changing for fermented milk products such as yogurts, mikysce [type of sour cream], biokys [soft cheese], and others. We have a fairly good supply of these. Demand for certain types of cheeses has also changed. Customers are demanding processed cheeses rather than the expensive smoked and hard cheeses or Olomouc tvaruzka [popular brand of soft cheese]. This is not surprising. After all, the price of a Moravian loaf cheese has increased from Kcs28 per kilogram to Kcs50 per kilogram. We could use more variety, but we have not been able to get it from the milk industry plants to our sales counters. Producers should also react more rapidly to demand. For example, customers are asking for soft butter or Juno, Visa, Hera, and Dukat margarines, as substitutes for expensive butter. The producers, though, clearly because of insufficient capacity, have been unable to meet this new demand. Frozen cremes, which were in short supply before prices went up, are completely unavailable now.

[Kovandova] How is your cooperation going now with the meat industry?

[Dvorak] I must compliment the meat industry employees for delivering what is available at a comparable price, in order to maintain approximate relative prices when we order types of meat products that they are not producing at the moment or that they do not have in the warehouse. The sharp increase in the price of beef has sharply decreased demand, from 50 to about 10 percent of sales. On the other hand, demand for pork has increased. Customers are interested in the less expensive cuts of meat and meat products. The meat industry is reacting to their wishes by returning to the production, for instance, of head cheese, garlic kabanos, and other smoked products that are less expensive. While neither producers nor stores were prepared for such sharp increases in food prices and the resulting significant

changes in the structure of demand, some of them, the meat industry in particular, have already figured out ways to improve the situation.

Past Wrongs in Land Ownership Need Correcting

91CH0034G Prague ZEMEDELSKE NOVINY
in Czech 15 Sep 90 p 7

[Article by Eng. Josef Bulka, Nemilkov, Klatovy region: "First Let's Right the Wrongs"]

[Text] I think that the idea of strengthening ownership relationships and supporting entrepreneurial processes in agricultural cooperatives is healthy and is the way in our region to increase the interest of our members in cooperative management.

Before implementing this idea, though, one of the wrongs perpetrated in 1945-48 on a significant percentage of landowners should be corrected. It is a wrong the correction of which was part of the platform of one of the established agricultural parties. I have in mind the "voluntary" giving of land to the government which, in the interest of justice, should be declared invalid across the board.

Employees of the former government apparatus to whom this applies certainly remember the guidelines, almost certainly unpublished, under which they were supposed to pressure owners in various contexts, but mainly in the transfer and sale of real estate, to convince them to give their land to the government. The level of enthusiasm of government servants in a region determined how much land passed from the private to the state sector. Since the end of collectivization villages have been the users of the land. These procedures even deprived people who were working elsewhere, and often lived elsewhere, of their land. For these people, especially at the start of collectivization, land ownership meant a threat that they would have to leave a good job and come work on a cooperative on "hectares" inherited from fathers. Whether the exploitation of these people was proper can be left to the judgement of each of us.

A much sadder reality is the fact that by "giving their land to the government" many cooperative members, some the original founders, were also deprived of their land, in the sense that they were forced to contribute it to the cooperative. These people have worked this land for all the intervening years, and if they were young when the cooperative was founded may still be working it. If they are no longer alive, then their children may be doing so. For this portion of landowners, ownership was not a threat because they were already working the land. Still, in many cases these people gave up and "gave" the land to the government. Why? If you speak with these people today you will find out that there was always some form of pressure, exploitation of lack of information or knowledge of ownership rights and sometimes simple naivete. But all of this is difficult to prove today. The donation agreements have been duly notarized and signed and are

in accordance with the law. Still this was theft, perpetrated on these people by the government apparatus.

It would make sense to correct this situation as soon as possible, and definitely prior to introducing shares and stock. For instance, there should exist at least some kind of promise that something will be done by a certain time. The position taken by those just elected at the village level will be critical to the success of such a program. No one would lose, quite the contrary. It would correct a demonstrated wrong and would increase the number of cooperative members with an interest in good management and true prosperity.

Law on Land Reform Outlined

91CH0034F Prague ZEMEDELSKE NOVINY
in Czech 15 Sep 90 p 7

[Article by Eva Chalupova, doctor of laws, Federal Ministry of Economics: "Owner To Have Priority Over User"]

[Text] The proposed law is intended to replace current regulations governing ownership and land use, as contained in Law No. 123/1975, Laws of the CSSR [Sb.], concerning use of land and other agricultural property for production, amended by Law No. 95/1988, Sb., and most recently this year by Law No. 114/1990, Sb. Both of these amendments, to be sure, to a greater or lesser extent made it possible to return agricultural land, buildings, and plots to owners for their use. There still remained, however, a number of reasons why it was impractical to rescind rights of use (for instance when an enterprise has improved a plot, or when a plot contains permanent stands, or is otherwise inaccessible to the owner—for hunting).

The models for land use laws are Sections 12-19 of Law No. 61/1977, Sb. concerning forests, and Law No. 162/1990, Sb. concerning agricultural cooperative practices on plots in cooperative use.

The new land use law codifies the relationships of owners and users to agricultural and forest land, bodies of water, and other plots with the exception of land used for national defense, for mining minerals, for engineering or transportation construction, for cemeteries, or land that is in protected areas. Ownership rights regain their original meaning and content, including the right of an owner to manage a piece of land, or rent it to legal entities or individuals. Landowners have equal rights and responsibilities, whether they be an enterprise or a citizen.

One of the goals of the proposed law is to make it possible to return real property (plots of land, farm buildings, and other farmstead areas) to the ownership of those who lost it because of sentences of loss of property in criminal trials (including administrative criminal trials), and who have now been rehabilitated, and to those who lost property without compensation because of proceedings under law No. 142/1947, Sb., concerning

new land reform. Those who drafted the law intend to allow the return of agricultural property to those who gave it to the state under pressure or because they had to give it up in order to obtain the approval of the appropriate office to transfer farmstead buildings. The property will be returned on the condition that it will be well managed for its designated use. This does not preclude the owner from seeking competent management through rental.

Land banks, which will administer land under government ownership, will transfer the returned land at no charge to the original owner or his heirs. In the case of property that is under government ownership but for which a right of individual use has been assigned to another citizen (e.g. to build a home or a recreational cottage), or if there is a government owned building on the land, the land bank will offer the original owner, at no charge, the transfer of another plot or plots of equivalent quality or size. The right to a free transfer will have to be exercised by the owner within two years of the passage of the law, or the right is forfeited.

Land offices will be created to eliminate obstacles to the exercise of ownership rights by those who are requesting the return of land or buildings either under existing laws (No. 114/1990, Sb., or No. 162/1990, Sb.), or who are requesting the free transfer of their original property under the new land law. These land offices will have the authority to make changes in land ownership in a designated territory. Citizens will have equal status with government and cooperative enterprises in pursuing their interests.

The goal of land reform is to organize the land stock in a locality in a way that maximizes the appearance and ecology of the area, and the management of the created parcels. The land offices will issue guidelines for the formation of specialized project teams to draft an overall plan. Representatives of villages, agricultural organizations, village civic groups, and owner representatives will form local commissions to cooperate with the land offices in developing proposals for land reform. The outcome will then be negotiated with the owners of the affected plots.

Part of the plan will be a proposal to allocate parcels to owners in a way so that the exchange of ownership rights (exchange of plots) will allow each owner to obtain ownership of plots of about the same size, quality, and economic status as the original land, as well as creating as much as possible farms with contiguous holdings. The land office will approve the land reform plan and use it as the basis for exchanging ownership rights of specific owners to specific plots. The participants in the process will be able to appeal the both decisions to the courts. Once the decisions become binding, however, the ownership changes will be recorded in the real estate records kept in the pertinent Geodesic office. These records will be the basis for any necessary financial adjustments to compensate for differences in land prices.

Land offices will also monitor the implementation of land reform in the field and determine whether any of the information on which the land reform plan was based has changed. If any characteristics of the land have changed, the land office will be responsible for adjusting the plan.

The draft law now contains alternatives for certain decisions. These include the question of whether it is necessary to establish a limit on the maximum amount of land that can belong to one person, and if so what the limit should be, or whether it is necessary distinguish between agricultural and forest plots. The draft law has been submitted to the central government agencies of both republics and the federation for comments, so there may be major changes in its content.

HUNGARY

MNB Official on Monetary Policy Goals, Need for 'Shock Therapy'

91CH0085A Budapest FIGYELO in Hungarian
4 Oct 90 p 13

[Interview with Hungarian National Bank (MNB) Deputy President Sandor Czirjak by Ivan Wiesel; place and date not given: "Shock Therapy Is Unavoidable"—first paragraph is FIGYELO introduction]

[Text] What is contained in the three-year package plan of the MNB [Hungarian National Bank], which is part of the cabinet's economic renewal program? We asked MNB Deputy President Sandor Czirjak to respond to our questions.

[Wiesel] What are the chief priorities of MNB monetary policy in the next three years?

[Czirjak] The most important, top priority task is to maintain and to improve our international solvency. The market economy cannot become a reality if we do not succeed in this respect. The collapse of our solvency would lead to the disintegration of our economy, to import, price, and wage restrictions, and to various hands-on management systems.

[Wiesel] Excuse me for interrupting. What role do you think planned proposals to alleviate indebtedness can play in maintaining solvency?

[Czirjak] Hungarian indebtedness exists primarily in relation to private banks, and a significant part of this is in the form of bonds. These bonds are also owned by private persons—why should they surrender their rights as owners? So the idea of a Hungarian initiative of this nature cannot even be raised in this sphere; it would be unjustified.

There could possibly exist an opportunity like this at the international level, but this should not be initiated by us either; it would not be worthwhile for us to initiate this matter.

There is no reason to believe that this country will be unable to preserve its international solvency in the next three years. Thus the favorable attitude of the international financial community to Hungary should not be weakened by irresponsible guesswork, and by unprofessional promises from us.

[Wiesel] I would think that fighting inflation is also one of the MNB goals.

[Czirjak] This is the second goal after the requirement to preserve our solvency is satisfied. We must conduct a monetary policy which reduces inflation. But one must not generate illusions concerning the ability of monetary policy to quickly reduce inflation. Moreover, one cannot deny that inflation may even increase under the pressure of economic concerns this year.

[Wiesel] The central bank's anti-inflationary measures take shape mostly in terms of exchange rate and interest rate policies. What are your plans in this regard?

[Czirjak] Insofar as exchange rate policies are concerned, we must reconcile two conflicting factors: We must take into account the development of external and internal prices, and we must follow the difference between the inflation rates of foreign and domestic currencies. In these days the latter renders the forint increasingly worthless.

[Wiesel] Accordingly, should the forint be devalued?

[Czirjak] That is not at all the issue. Inflation must be restrained and in this way we must effect a relatively stable forint as compared to foreign currencies. The favorable development of the external economic balance this year does not justify devaluation. And this is also proven by the narrowing of the gap between the official and the black market rates of the forint.

[Wiesel] If we are not going to have devaluation, then the profitability of exports will deteriorate.

[Czirjak] The fact that the narrowing of the domestic and CEMA markets forces an increase in convertible exports must be recognized to a certain extent.

[Wiesel] Let us return to the interest rates. What is your view, at what point will interest rates peak so that the demand for money declines and inflation becomes more moderate?

[Czirjak] Raising the interest rate is a classic anti-inflationary weapon. It reduces the demand for credit, it increases savings, and ultimately, through these complex market relationships, it [reduces] prices. Many in Hungary dispute the possibility that this mechanism will work. They claim that increased interest rates will have inflationary effects on costs. MNB leaders feel that the role played by interest rates will change as the market economy broadens, and that the anti-inflationary effects of interest rates will increasingly prevail. We cannot determine just when exactly—under Hungarian conditions—an interest rate level at which anti-inflationary

measures would become effective, will develop. But I hope that we are not far from that point.

[Wiesel] Along with the present role of the central bank in the management of the state, will the central bank be able to pursue an independent monetary policy?

[Czirjak] The package plan includes the establishment of a relatively independent central bank, in the absence of which it is impossible to establish and operate a unified money market in the long term. This is needed so that the decisions of persons active in the economy may be based on achieving the greatest possible return.

A gradual decline in the state's role of granting credits, and an increasingly definitive role played by the business sphere is an important condition for having a unified money market and for rendering the central bank effective.

A growing role played by interest rates, and the increasing weight of open market transactions are important requirements in the framework of the central bank's ability to regulate the money market. At this time a mixed set of regulations prevails, in which targeted loan programs, refinancing funds—notably the system of distribution—play a significant role. The central bank intends to reduce these factors during the next three years, while maintaining certain preferences so that the interest paid on long-term loans will be more favorable than the interest on short-term loans. We provide favorable credit terms to enhance privatization. Our goal is to come increasingly closer to a uniform interest rate.

[Wiesel] To what extent is the young Hungarian banking system prepared to accept modern central bank policies?

[Czirjak] I am convinced that the Hungarian banking system is ready for that. Let us not forget that the central bank and the commercial banks began their activities to establish a money market at the same time. Paralleling the evolution of the market economy, the resource situation of the commercial banks must change. As a result of decentralizing foreign exchange transactions, commercial banks will be able to take out foreign exchange loans. Thus the refinancing obligations of the central bank will decrease.

In order to see an increase in individual savings, it will be necessary for the holders of savings to realize a real interest. And in order to alter the outlook of individuals, they must count on a change in the distribution system under the given difficult conditions, and they must realize that personal security requires increased savings. In the future refinancing by the central bank will have to be increasingly restricted in scope.

[Wiesel] And to what extent are commercial banks prepared to finance entrepreneurial ventures?

[Czirjak] Advances in this regard are significant, but the banking organization must still change, it must become more decentralized in order to provide more efficient

investment financing. This will require new types of investment organizations, and improvements in the level of services.

In this race the appearance of new financial institutions and mixed ownership banks must occur on a broader scale. Consortium activities must also appear in regard to large-volume financing. This practice is broadly recognized in international circles. In Hungary it is still unknown.

[Wiesel] Banks do not wish to finance long-term investments today. What do you do to change this situation?

[Czirjak] We are striving for the establishment of specialized investment banks. These will be prepared to assume such risks.

[Wiesel] What model do you intend to follow in terms of developing the business of investing? The English or the German model?

[Czirjak] This is the subject of heated debate, even within the central bank. I personally favor the English model, because it presumes separate investment companies, unlike the German model in which investment activities are pursued mostly by commercial banks. Although it is true that in these days the investment supply originates mostly from the German market.

[Wiesel] A recurring issue both in terms of economic and monetary policy is the question of when and how timely, extensive changes should be performed in the economy, without which recovery from the crisis is impossible. What is your view in this regard?

[Czirjak] Recently FIGYELO carried an interesting article, which compared the 1929-33 crisis with the present crisis, as well as the recovery possibilities in regard to both. It appears that during the 1930's, shock therapy may be credited for the recovery. As far as I am concerned, I am an advocate of making radical changes, because during the past years we were able to see that procrastination over the resolution of problems, excessive precautions, and the "equitable" nature of solutions as viewed from various standpoints—social, political, and local considerations—only served continuously to increase the snowball of concerns. And the threat of such an avalanche is rather great. The avoidance of such an avalanche demands the fundamental transformation of the distribution systems, of income and of price ratios, because in the absence of such transformation we will be unable to establish a stable national economy and a relatively stable forint which rest on the foundations of a market economy.

Legal Provisions Affecting Privatization Analyzed

91CH0050A Budapest KULGAZDASAG in Hungarian No 9, Sep 90 pp 129-144

[Article by Dr. Izabella Lelkes: "Reprivatization and State Property"]

[Text] The transformation of the structure of our economy has been given the green light to do whatever it

takes to remedy our economic ills. Pressed by time, everyone is working hard to ensure that every economic organization reaches the goal while the green light is still on. Unfortunately, however, the road leading there is rough and governed by imperfect laws. It is clear that having freed themselves from the binds of the past some have chosen to move on by transgressing the boundaries of the law.

In applying the land law and the various provisions pertaining to private corporations and the restructuring of economic organizations, our enterprises and the experts in charge of registering businesses have been faced daily with the difficult task of having to interpret countless legal questions and problems. It almost appears as if the ambiguities created by the economic restructuring have also taken control of law making. For the behavior of economic organizations today is determined not primarily by legislative measures, but by custom fit economic policies designed to promote successful structural changes, market research and the influx of foreign capital. While these are essential factors to consider when giving blood transfusion to an economy, without a unified set of organizing principles they may lead to chaos-like situations in certain areas of the economy.

It is difficult today to determine under what conditions state-owned property or the utilization rights thereof can be transferred into the possession or use of private corporations; whether or not the principle of *nemo plus juris* also applies to the rights of trustees; and of the state-owned economic organizations turned private corporations who will have to turn over what portion or share above what limit to the Property Agency. At least as difficult to answer is which agreements and documents signed by enterprises are subject to review by higher organizations and authorities.

Most managers in charge of the transforming enterprises are at a loss in trying to address these questions, and in most cases they are looking to the registry courts for guidance after the reorganization has been completed, even though decisions and rulings on such issues should be made already during the course of the reorganization process, but definitely before the submission of the registration application.

The difficulty unquestionably stems from the fact that most of the relevant statutory provisions have been adopted after some delay following the implementation of the partnership law, often mutually vitiating each other's intended effect—see the amendments to the land law, the regulation pertaining to local administration, the law on the management and utilization of property belonging to the Property Agency in light of the law governing state properties under enterprise control—thus leaving these issues up to broad legal interpretation. Having studied the multitude of statutory provisions, those applying the laws are well versed in interpreting

them, still they have failed to live up to their task because they are unable to get a handle on the concepts among the jungle of statutory provisions which are often inconsistently defined. Figuratively speaking, every lawyer is a beginner here, for whatever they learned yesterday is only partially true today.

The only solution lies in the codification of this divergent body of law, which is as needed as rain during a draught. The dialectic relationship between law making and economic life must be reestablished, making the system of legislative and legal institutions the determining element in that relationship, and not the various imagined or real individual and group interests hiding behind the ramparts of legal discrepancies disguised as all-national interests.

On State Property

In its preamble, Land Law No. 1/1987 (or Land Law) which has been amended several times, declares that the land is a national treasure; protecting it and insuring that it is used as intended is in the interest of society as a whole.

Falling within the law—with the exception of forests—are all lands located within the country's boundaries: arable lands, lands housing structures and edifices, special purpose lands, lands unsuited for utilization, as well as buildings and other structures located on the land. (Land and structures will hereinafter be collectively referred to as real estate.)

Also governing the construction, allocation, use and utilization of buildings and structures besides the provisions of this law are the provisions of other separate statutes.

The legal steps toward obtaining proprietary rights over real estate are laid down in the Civil Code and the law described herein.

Real estate may be owned by the state, cooperatives and other legal or private persons. Proprietary rights over real estate cannot be relinquished.

On Proprietary Rights

Proprietors are entitled to:

- utilize and earn profits from their real estate;
- assign possession and use of, and the right to profit from real estate to others;
- own and be assured proprietary protection over their real estate;
- offer their real estate as collateral, or subject it to other types of encumbrances; and
- transfer their proprietary rights over real estate to others.

Proprietors are obligated to continue payment on any liabilities attached to their real estate, and to repair any damage caused to their real estate for which no one else can be held liable.

The state has proprietary control over the real estate in its possession. Within this context, and in accordance with the relevant statutory provisions it can:

- place its real estate under the management of a trustee; and
- withdraw the right of trustee.

Regrettably, the Land Law does not provide an itemized list of those who are entitled to exercise "proprietary control" in the name of the state, which in effect is a license that gives its holder rights reserved for proprietors. It makes only general references to the kind of organizations that can exercise proprietary controls, and in addition it also introduces the institution of the right of trustee. Proprietary rights—as assigned by law—are exercised in some cases by the controlling organization, and in others by the trustee of the real estate, which is a solution that has created an ambiguous situation, and created countless problems hindering the forming of businesses and reprivatization.

In accordance with Section 11 of the Land Law, proprietary controls may be exercised by a) any organization entitled to form a state organization to be assigned trusteeship over real estate (see Law No. 1/1977 on state enterprises, hereinafter: Enterprise Law), b) the executive committees of local councils, provided that the real estate in question is not already under the trusteeship of a state agency or other social organization, or, if the real estate in question has been turned over for free and indefinite use by an agricultural producers enterprise.

Organizations exercising proprietary controls may transfer that right to other organizations entitled to form a state agency. Executive committees of local councils may transfer this same right to their specialized agencies or county and city offices.

The law does not address what additional steps need to be taken in this area. From these provisions one is led to conclude, however, that only the organizations exercising proprietary controls have the right to alienate real estate; unfortunately this basic principle is vitiated and transgressed by subsequent provisions of the law.

Paragraph (1), Section 2 of Decree No. 26/1987 (30 Jul) of the Council of Ministers governing the implementation of the Land Law (hereinafter: Decree) stipulates that "unless specified differently by a statutory provision, trustees are entitled to all of the rights, and are subject to all of the obligations of proprietors." Well, if on the basis of the implementation decree trustees are entitled to all of the rights of proprietors, then there is a contradiction between the law and the implementation decree which often surfaces in debates concerning the implementation of reprivatization.

If the trustee—as it was intended by the legislators—is indeed entitled to the full scope of proprietary rights, including the right of alienation in certain cases, then this issue should have been regulated on the statutory level during the implementation of the reorganization law at the latest. Settlement of this issue would not only have accelerated registry court proceedings—including the reorganization process itself—but first and foremost it would have also helped to protect interests connected with state-owned property. In cases of transfers of state property to private corporations without the consent of the organization exercising proprietary controls a strange fusion of interests has been observed between the managers of enterprises and their “dependents,” as it has been from among their ranks that in the course of incorporation outside entrepreneurs came into control, or secured excessively high office holder fees and premiums for themselves by making the reorganization contingent upon being appointed to key positions.

The masses of workers, of course, have had little say in these matters, and in many cases this has been the registry courts’ chief source of contention with respect to business registrations.

The itemized list of state enterprises that may exercise proprietary controls is provided not by the Land Law, but by Law No. 1/ 1977 on state enterprises. Entitled to forming an enterprise under that law are: ministers, heads of nationwide organizations, local councils and other state organizations authorized by the Council of Ministers to form enterprises (collectively: founding organizations).

If the establishment of the enterprise has been ordered by law, statutory provision, decree issued by the Council of Ministers, then the rights and obligations of the founder are vested in the organization specified in those statutes.

In addition to the above, enterprises may be formed—upon the breakup of an enterprise—through the transformation of one of its organizational units into an independent enterprise, and by way of enterprise mergers agreed to by the founding organizations.

At the time of the founding of the enterprise it is incumbent on the founding organization to supply the enterprise with the capital (starting capital) it needs in order to fulfill its functions. [Paragraph (1), Section 27, Enterprise Law] The enterprise has sole say in appropriating the capital with which it is thus entrusted, and according to the general provision of the law, it can never be divested of that capital.

Looking at these statutes as a whole the logical conclusion to draw would be to say that of the rights due to proprietors and declared by law, the transfer of proprietary rights in the case of state-owned real estate is governed by the founding organization as specified in Section 7 of the Enterprise Law, and that the alienation of real estate in the trusteeship of enterprises requires the

consent of the founding organization. This legislative intent is not reflected in the provisions of the Land Law pertaining to trustee rights.

On the Right of Trustee

Trusteeship of state-owned real estate may be assigned to state agencies or social organizations. [Paragraph (1), Section 12, Land Law] On the basis of a written agreement, the right of trustee (which naturally is a free benefit) may be transferred by the trustee to another organization authorized to serve as a trustee of real estate for a fee or without compensation. [Paragraph (1), Section 17, Land Law]

It might seem naive in light of these two statutes to ask who is entitled to serve as trustee of real estate, when it is clearer than daylight that nobody other than state agencies and social organizations are entitled to that right, yet in the course of reprivatization this question has been raised almost on a daily basis.

In addition to the stipulations contained in Paragraph (1), Section 2 of the already mentioned Decree, Paragraph (2), Section 12 of the Land Law also governs the manner in which the right of trustee may be obtained. It may be done:

- by decision on the part of the organization exercising proprietary controls;
- by official decree;
- by way of agreement with the trustee; and
- by transferring proprietary rights to the state.

For the reasons already explained, the “agreement with the trustee” stipulation tends to stick out like a “sore thumb” even though—by law—the trustee enterprise of the state-owned real estate can independently manage the capital with which it was entrusted. In view of the possibility to obtain real estate free of charge, it would be expedient to require the consent of the founding organization for any transfer—or enterprise decision pertaining to it—of the right of trustee, once the enterprise no longer has a need for the real estate, or is forced to part with it out of economic considerations.

Closely connected with the above, of course, is the issue of transferring state-owned real estate over to private corporations. Nothing underscores the importance of this issue more than the fact that the relevant provision of the Land Law (Section 13), has just been amended several times, most recently by Law No. 37/1990, adopted on 4 Jul 1990.

State-owned real estate may—according to Paragraph (1), Section 12 of the Land Law—be placed in the trusteeship of state agencies and social organizations.

Paragraph (2), Section 13 of the Land Law concerning the right of trustee of social organizations states the following:

"Social organizations cannot transfer the proprietary rights to state-owned real estate that have been placed in their trusteeship.

"They may yield their trustee and user rights—to others entitled to assume those rights, or—to the appropriate placement authorities, as specified by the regulations governing local management. They may not impose charges on real estate. Otherwise they are entitled to the rights of proprietors and liable to fulfill their obligations."

Trustee Rights of State Agencies

Considered state agencies under the law are state enterprises, trusts, state economic organizations, and organizations financed by the state.

As defined in the law, arable land is land identified in the real estate registry as plough land, vineyard, orchard, garden, grass land, reeds or forest in terms of land use, or fishery, and is not classified as structure-bearing or special purpose land.

The first thing governed by Paragraph (1), Section 13 of the Land Law is the alienation of proprietary rights over arable land:

"In matters concerning the alienation of proprietary rights to arable land owned by the state, the commitment of such lands to a business partnership as nonmonetary, proprietary contribution, or the leasing of the same for profit, the provisions of the law intended to protect enterprise-operated state properties are to be applied only in the case of contracts involving 1 million forints or more."

This legal definition is not one of the most successful and easy to interpret regulations ever drafted. More in accordance with the legislative intent of the law perhaps is the view which holds that contracts concerning arable lands under the trusteeship of state agencies valued at more than 1 million forints should be reported in advance to the Property Agency, provided that the object of the contract belongs to one of the above categories. (Sections 3 and 5 of Law No. 8/1990)

It was on 4 Jun 1990, on the day—as it was pointed out earlier—of its promulgation that Law No. 37/1990 designed to amend and supplement Land Law No. 1/1987, went into effect, and its directives were also to be applied to cases in progress. With this law Section 13 of the Land Law has been rendered complete.

According to Paragraph (3), Section 13 of the Land Law:

"Only with permission from the property control committees (hereinafter: committees) to be established in the counties (capital city) may proprietary rights (trustee rights) to state-owned property be transferred or encumbered, or user and leasing rights to the same be transferred to private corporations."

According to the justification attached to the law, in cases not falling within the jurisdiction of the Property Agency, trustees will have to secure permission from the property control committees to be established in each county (and the capital city) in order to be able to exercise their right of disposal over such property. We have a vested social interest in ensuring, the justification states, that state-owned real estate is disposed of in accordance with the interests of the soon to be formed local governments.

Below I will discuss the provisions governing state property belonging to the Property Agency and pertinent value limits.

According to Paragraph (4), Section 13 of the Land Law, the restrictions specified in Paragraph (3) above do not apply to real estate defined by a special statutory provision as belonging under the jurisdiction of one of the agencies of the Ministry of Finance designated as the trustee and user of frozen state assets, to the alienation of apartment buildings to renters or of building construction sites to private persons, or to matters that fall within the jurisdiction of the State Property Agency.

On the Acquisition of Real Estate by Foreigners

Section 38 of the Land Law contains the following provisions concerning the acquisition of property by foreigners:

"(1) Unless specified differently by statutory provisions or International agreements, foreign legal or private persons may acquire proprietary rights to real estate by way of purchase, exchange or as a gift with preliminary approval from the Ministry of Finance.

"(2) The granting of preliminary approval by the Ministry of Finance requires concordance among all of the ministries (and agencies of nationwide jurisdiction) concerned."

Together with Law No. 6/1988 on business partnerships, Law No. 24/1988 on investments in Hungary by foreigners (hereinafter: Foreign Investment Law) defines the subjective effect of the law by citing relevant foreign exchange statutes.

Under the Foreign Investment Law "a foreigner is a legal person, or natural person, who is defined as a foreigner in the foreign exchange statutes." [Article a), Section 2]

Article a), Section 1 of the Decree on the implementation of the Land Law also makes a reference to the concept of a foreign legal person within the context of applying the Land Law. According to that provision: "foreign legal persons are legal persons of foreign residence, organizations without legal person status with headquarters abroad, and organizations based in Hungary, owned exclusively by foreigners."

In accordance with Article f), Section 1 of the above Decree, the right of foreigners to acquire real estate has been limited by Decree No. 145/1989 (27 Dec) of the

Council of Ministers on the acquisition of real estate by foreigners, which went into effect on 1 Jan 1990.

Decision No. 12/1990 (23 May) of the Constitutional Court on the unconstitutionality of the Council of Ministers decree on the acquisition of real estate by foreigners states that the last subclause of Article f), Section 1 of Decree No. 26/1987 (30 Jul) of the Council of Ministers, and Decree No. 145/1989 (27 Dec) of the Council of Ministers on the acquisition of real estate are unconstitutional," and has subsequently annulled them in their entirety, effective 30 Sep 1990.

On the Reorganization of State Enterprises Into Corporations

The provisions of Law No. 13/1989 on the reorganization of economic organizations and corporations (hereinafter: Reorganization Law) pertain to state enterprises as well as to other state controlled economic organizations, nonincorporated financial institutions and with the exceptions specified in Section 3 of the Reorganization Law, to the enterprises and subsidiaries of certain legal persons, with the exception of savings cooperatives and financial institution subsidiaries.

With respect to certain company interests (shares) that make up the property of state enterprises turned corporations, membership (shareholder) rights are exercised by the state trustee organizations. The state trustee organizations are governed by separate law.

According to the Enterprise Law, an enterprise may be under the general management of a) the enterprise council, or b) the general assembly of enterprise employees, the assembly of delegates, or c) the director.

If the role of general manager of the enterprise is vested in the director, then the enterprise is classified as being under state administrative control. In such instances the statute establishing the enterprise may also call for the formation of a board of directors work side-by-side with the director.

Accordingly, enterprises may be classified by organizational form as belonging to one of the following general categories: enterprise-council managed, employee-assembly managed and state administrative controlled.

The enterprise council is comprised of delegates elected by the employees and representatives of the enterprise management. Every member holds one vote.

The assembly of employees of the enterprise encompasses all workers employed by the enterprise. In electing or dismissing the director and members of management the general assembly votes by secret ballot.

In the case of enterprises managed by an assembly of delegates the members of the assembly are elected at combined meetings at the organizational unit level.

Falling within the competence of the enterprise council and the assembly of employees (assembly of delegates), among other things, is the right to:

- approve the balance;
- determine the results depicted in the balance;
- decide on the degree of enterprise participation in corporations; and
- decide whether or not that enterprise should be reorganized into a corporation.

The right to decide on these issues is of fundamentally importance when it comes to reorganization, yet the regulations are different in the case of enterprises under the general management of the director, in other words, in the case of enterprises under state administrative control.

Considered to be under state administrative control are:

- the public utility enterprises, and
- enterprises so designated by the Council of Ministers.

The general management of the enterprise is in the hands of the director, although if so called for in the enterprise's founding statute, a board of directors can also function side-by side with the director. The board of directors has the right to approve the balance, accept the performance report, establish subsidiaries, decide whether or not to become significantly involved in business partnerships, etc. In matters not falling within the competence of the board of directors, the director of the enterprise makes the decision.

Let us review the conditions of enterprise reorganization.

Special Regulations Governing Reorganization

According to the rules of reorganization, enterprises—of the kind described above—may transform themselves into limited liability companies or corporations. Companies must employ an auditor and a comptroller board.

The Reorganization Law does allow exemptions from under certain regulations of the partnership law. For example:

In the case of limited liability companies the amount of cash deposits may not be less than 30 percent of their primary assets, and they have a longer time to come up with the required cash deposit; at the same time, no share of the business may be transferred to an other member before the entire equity deposit has been paid;

In the case of corporations, cash contributions may also not be less than 30 percent of the founding capital.

In addition, the Reorganization Law has also introduced the concept of advance interim certificates; in connection with these they have:

- amended the regulations pertaining to the issuing of interim certificates, and
- extended the deadline for subscribing to interim certificates.

The financial assets of enterprises undergoing reorganization are available to be used—in the manner, and up to the value stated on the balance sheet, usually at the enterprise's financial institution of account, hence obviously cash deposits cannot be made there; they can only accept cash deposits from outside investors.

The statutory provisions concerning reorganization clearly define which items on the balance sheet can be considered a part of a company's primary assets or starting capital, which is why one has to question why the Reorganization Law does not make an exception with respect to the provision of the partnership law concerning the determination of the composition of primary assets or starting capital. For as things stand now it is virtually impossible to tell what percentage of the company assets discussed above comes from allotted funds, and how much from cash deposits. Also unclear is how cash deposits are acknowledged, and whether or not certification of payment by outside entrepreneurs is sufficient to get a firm registered.

According to the provisions of the Reorganization Law the amount of the starting capital may be raised before all previously issued shares are cashed in at nominal value.

Paragraphs (1) and (2), Section 30 of the Reorganization Law defines who are eligible to subscribe to advance shares without or only at minimum payment. The total sum of the nominal value of these shares may not exceed 20 percent of the planned starting capital, or in the case of corporations belonging to the food industry branch, 50 percent of the starting capital. Dividends earned by advance interim shares are not paid out to the shareholder by the company, but are credited toward paying off their loan. Even before it is credited in the amount of its face value as described above, this type of share is fully negotiable since the "payments" made by the previous holder are applied to the account of the successor in title.

The fate of the dividend depends on whether or not this share had been issued against the contributed state property itself, or against something more than just those assets. This distinction appears to be a tricky one since subscribing to advance shares,

- requires no, or only minimal payment, and
- the total value of the shares may not exceed 20 percent (in exceptional cases 50 percent) of the starting capital; they are issued against the starting capital, and after full payment has been made they turn into assets over and above the starting capital.

Dividends withheld on the above shares must be applied to the starting capital if they had been issued against that

portion of it which is in excess of the enterprise assets, while in the case of shares issued against the enterprise property itself,

- in the case of enterprises under state administrative control the entire dividend goes to the Property Agency;
- in the case of enterprises managed by an enterprise council (general assembly) 80 percent of the dividend goes to the Property Agency; and
- in other enterprises the dividend belongs to the founding organization.

The Reorganization of State Enterprises into Corporations and the Conditions Thereof

Form of Enterprise (I)

a) enterprise council, b) general assembly of workers, c) delegate assembly of workers and state enterprises operating under general management.

Reorganization requires two-thirds majority vote by the enterprise council, general assembly of workers and delegate assembly of workers. After the decision has been made, the enterprise is required to submit its reorganization plan, bookkeeping records and statement of assets to the Property Agency. It, in turn, will comment or make recommendations to the enterprise from the point of view of protecting the state's proprietary rights.

Special Exercise of Founder's Rights Against an Enterprise

If an enterprise's recorded assets have declined by 30 percent compared with either of the previous two calendar years, or if more than 50 percent of its recorded assets consists of shares in corporations, yet it fails to live up to its obligation to reorganize itself into a corporation, the founding organization may proceed to reorganize the enterprise into a corporation in accordance with the regulations governing enterprises under state administrative control. In such instances the Property Agency assumes the rights of founder.

Conditions of Reorganization (I)

The basic condition of reorganization is to have an outside entrepreneur who wants to take stock in the corporation.

Enterprises functioning in, or reorganizing into this organizational form must be joined by an outside entrepreneur, who must contribute to the "assets" of the resulting corporation.

The Contributed Assets of Outside Entrepreneurs

The primary assets or starting capital of the resulting corporation must exceed the assets shown on the enterprise's balance sheet by at least 20 percent or 100 million forints.

In order to prevent the selling off of enterprise assets, the law specifies that if the total sum of the assets shown on the enterprise's balance sheet—owing to an audit of those assets—turns out to be less than 80 percent of the planned primary assets or starting capital, and if there is no agreement between the enterprise and the Property Agency regarding the conditions and manner of reorganization, the Property Agency has 30 days after having failed to reach an agreement to accept the discrepancy, or to take exception. If it chooses to take exception, it may set an upper limit on the depreciation of the enterprise's assets, and if the enterprise does not accept it, the reorganization falls through.

Procedures for Reorganization After the Agreement Has Been Reached

For at least 3 years, the corporation created with the transformation of the above enterprises, may continue to hold onto those business interests and shares which at the time of the reorganization were transferred neither to the Property Agency, nor to the local councils or outside entrepreneurs. The corporation may freely sell these interests and shares.

Planned sales of the above must be reported to the Property Agency. If the Property Agency does not exercise its veto rights within 30 days after receipt of the request, the deal can be finalized in accordance with the reported conditions.

Interests and Shares of Creditors

Creditors of the reorganizing enterprise may be offered a share in the resulting corporation as payment to settle outstanding debts. They may receive an interest or shares in the amount of their claim. In such instances there is no need for outside entrepreneurs to take stock in the corporation.

State Property Belonging to the Property Agency (I)

The Property Agency may obtain legally defined interests and shares

- up to the limit specified by law (the Reorganization Law) (if there is no agreement); or
- as agreed to by the reorganizing enterprise and the Property Agency.

If the reorganizing enterprise deviates from the agreement, the Property Agency may summarily nullify the agreement. In such cases the reorganization can only proceed in accordance with the provisions of the Reorganization Law.

Of the successor corporation's primary assets or starting capital, the Property Agency will control:

- a) an interest or share equalling 20 percent of the state enterprise assets brought into the corporation, or
- b) instead of the above, whatever share of the state enterprise's assets has been agreed upon.

The local council is entitled to an interest or share (or depending on the location of the land, jurisdiction) based on the value of the incorporated land shown on the enterprise's balance sheet.

As Article a), Section 7 of Law No. 7/1990 on the State Property Agency states, the Property Agency has control over all interest and shares which—for the purpose of selling them—the corporation may retain for a period of three years following the reorganization. This provision does not affect the corporation's right to sell, it needs only to report its intention to do so.

After the open season to sell is over, the Property Agency retains control over all unsold interests and shares—as well as the right to sell them—as well as 80 percent of the moneys received after the interests and shares sold by the corporation; the remaining 20 percent will be added to the corporations's assets not counted as part of its primary assets, or starting capital.

If in order to settle its debts the reorganizing enterprise offers an interest or share of the business to its creditors as payment, the moneys thus “collected” will not be divided between the enterprise and the Property Agency. This is all the more appropriate since not only do the interests and shares distributed in this manner bolster the assets of the corporation, but they contribute equally to the reduction of the enterprise's outstanding debts.

Form of Enterprise (II)

The reorganization of enterprises under state administrative control is initiated by the Property Agency.

Conditions of Reorganization (II)

Until 28 Feb 1990, the decision whether or not to reorganize an enterprise under state administrative control was made by the founding organization with the consent of the minister of finance and input from the enterprise. [Paragraph (1), Section 16, Reorganization Law]

According to Paragraph (1), Section 12 of Law No. 12 1990 on the State Property Agency, effective 1 Mar 1990, founders' rights will belong to the Property Agency. The joining of outside entrepreneurs is not a required condition for reorganization.

At the time of the reorganization, creditors here too may obtain an interest or share as payment for their claim, to settle outstanding debts up to not more than the total value of the enterprise's assets.

State Property Belonging to the Property Agency (II)

If there are no outside entrepreneurs, then all interests and shares in the corporation belong to the Property Agency. If there are outside entrepreneurs, the Property Agency is entitled only to those interests and shares that are limited to the assets of the enterprise.

Form of Enterprise (III)

Starting 1 Mar 1990, the Property Agency will decide whether or not to reorganize trusts and other state controlled economic organizations.

Conditions of Reorganization (III)

Until 28 Feb 1990, matters pertaining to reorganization had been decided by the founding organization; herein-after the governing statute will be the above law concerning the Property Agency.

Creditors may receive interests and shares as described above.

State Property Belonging to the Property Agency (III)

All interests and shares in the corporation belong to the Property Agency, provided there are no outside entrepreneurs.

The right to sell interests and shares belongs to the corporation, but up to the amount of the total value of the enterprise's assets, 100 percent of the revenues thus collected are considered to be the Property Agency's sources of income.

Form of Enterprise (IV)

Subsidiaries and enterprises belonging to certain legal persons: the decision whether or not to reorganize a subsidiary into a corporation lies with the director of the enterprise, and in the case of cooperatives, with the general assembly.

Conditions of Reorganization (IV)

The decision to reorganize is carried out by the founding organization as stated in the statutory provisions. The reorganization is not contingent upon the joining of outside partners.

Creditors may acquire an interest or share in the corporation up to the limit specified on the enterprise balance sheet.

State Property Belonging to the Property Agency (IV)

Up to the amount of the enterprise's assets, the right to sell an interest or share in the corporation belongs to the founder. The Property Agency retains control over that portion of the corporation's assets which had been in state hands prior to the enactment of the Reorganization Law, which was in state hands at the time of the enactment of Law No. 7/1990, and which has remained in state hands since the enactment of Law No. 7/1990.

Reorganization and the Forming of Corporations With Foreign Investors

In the interest of promoting international economic cooperation, and especially in order to promote the direct influx of foreign capital into the economy, Law No. 24/1988 on investment by foreigners in Hungary

intended to provide foreign investors with guarantees of long term cooperation, free of unfair discrimination and based on mutual trust.

Included among the law's general provisions was the principle of affording full protection to foreign investments. Accordingly, the institution of compensatory payments is fully guaranteed by the law. "Losses of property incurred by foreign investors as a result of possible measures ordering nationalization, expropriation or actions of similar legal effect must be immediately compensated at actual value." Paragraph (2), Section 1.

Compensation to the person entitled thereto is to be made in the currency of the investment.

According to the law, a foreigner is a legal person or natural person who is defined as such by the foreign exchange statutes.

As defined in Paragraph (2), Section 3 of Statutory Provision No. 1/1974 on foreign exchange policy planning, a foreigner is:

- a) a person whose permanent residence—or in the case of a legal person, headquarters—is located abroad, and has foreign exchange holdings or financial assets in Hungary, or maintains pecuniary ties with Hungarian residents;
- b) plants (branches, agencies) of legal persons and other business organizations headquartered in Hungary operating abroad;
- c) diplomatic and consular representatives and their non-Hungarian national dependents stationed in Hungary; and
- d) other members and their dependents of diplomatic and consular missions operating in Hungary, the officials and their dependents of international organizations enjoying diplomatic immunity, provided that they are not Hungarian citizens and their permanent residence is not in Hungary.

The scope of the foreign exchange statutes also extends to the activities of native subjects.

Corporations with foreign participation may be formed to pursue any activity provided that it is not precluded or restricted by law.

The formation of majority or fully foreign-owned corporations, reorganizations aimed at becoming such corporations, and the acquisition of majority foreign shares in a corporation require joint permission from the ministers of finance and trade. The petition to obtain such a permit must be submitted to the Minister of Trade. The joint decision regarding the permit petition is issued by the Minister of Finance.

The acquired permit also includes a foreign exchange authority permit. If the share of foreign assets in the corporation does not exceed 50 percent, the formation of

or participation in such a corporation does not require foreign exchange authority or other permits.

The petition to obtain the permit necessary to form a majority or fully foreign-owned corporation must include:

- a) the names (firm names), business form, headquarters (residence) of its Hungarian and foreign members;
- b) the form, place of registration and headquarters of the corporation, and a description of its scope of activities;
- c) in the case of an already operating corporation, the size of its existing assets (primary assets, starting capital), and in the case of new corporations, projections of such figures;
- d) the manner of distribution of after-tax earnings; and
- e) a statement of the corporation's business policy objectives, supported by assessable data.

Also to be attached to the petition is a copy of the partnership contract (bylaws, or in the case of a stock company, memorandum of association) in Hungarian, and in the case of an already operating corporation, any necessary amendments to the above documents. In the case of new corporations, the petition must be submitted by the Hungarian founder; if permission for foreign participation is requested the corporation must provide five Hungarian language copies.

Here are some other legal statutes governing foreign investments in Hungary:

- a) The top officers and employees of a corporation may also be foreigners. Corporations in which the share of foreign ownership is greater than 20 percent are exempted from under domestic wage regulations.
- b) If the foreign employees choose not to take advantage of Hungarian social insurance services, the corporation may be exempt from having to pay a contribution. In order to be offered employment, foreigners must still obtain an employment permit as prescribed in the statutory provision. (From the council of the corporation's locality.)
- c) Means of production which a foreign member of the corporation contributes to the corporation as his share may be brought into the country duty free.
- d) A foreigner's own financial contribution must be made in convertible currency.

The investment shares of foreigners must be recorded in forints at the exchange rate of the currency of their foreign residence. Foreign currencies will be converted at the given official exchange rate as determined by the Hungarian National Bank.

- e) Corporations can significantly benefit from a regulation which permits monetary contributions made in hard

currency by a foreign member to be kept in the corporation's account in the currency of payment, and to be used freely to cover foreign purchases of items necessary for its operations.

- f) The foreigner's share of the corporation's profits, or in the case of the corporation's dissolution or partial or complete alienation of the share of foreign ownership, the moneys due to the foreigner may be freely transferred abroad in the currency of the investment, provided that the corporation possesses the necessary funds.

On Tax Benefits in the Case of "Mixed" Enterprises

Corporations operating with foreign participation are required to pay a business profits tax. Particularly important for foreigners is another regulation according to which these corporations cannot be required to pay any other duties after their profits into the state budget.

Law No. 9/1988 on the business profits tax states that corporations with foreign participation are entitled to the same tax benefits enjoyed by other domestic business organizations. Other tax benefits are as follows:

- a) if the percentage of foreign participation in the founding assets reaches 20 percent, or 5 million forints, the corporation is entitled to a 20 percent exemption from the assessed tax;
- b) if more than a half of the corporation's earnings is generated from product manufacturing or the operation of a self-built hotel, and if the founding assets exceed 25 million forints and the share of foreign participation 30 percent, the corporation is entitled to additional progressive tax benefits;
- c) in the case of particularly important activities conducted under conditions specified by law, the corporation may be entitled to additional tax exemptions.

Tax benefits may be claimed in the form of tax withholdings.

Management and Utilization of State Assets Belonging to the Property Agency

According to Section 1, Law No. 7/1990 (Reorganization Law) on the State Property Agency and the management and utilization of the assets under its control, the Property Agency is a budgetary organization of legal person status overseen by Parliament empowered with proprietary rights over the state assets under its control, whose activities fall under the scrutiny of the State Audit Office.

The Property Agency may alienate or appoint a manager over a state property as specified by law.

The selling, contracting out or leasing of state property, and the acquisition of the required delegation of authority is done by way of competitive bidding. The

bidding process and the signing of contracts is governed in detail by Sections 22 and 23 of the State Enterprise law.

State property may be sold to any domestic or foreign natural or legal person, corporations without legal person status or to individual entrepreneurs. Also to be applied in the case of foreigners is Section 2, Law No. 24/1988, according to which a foreigner is a legal or natural person defined as a foreigner in the foreign exchange statutes.

On the Trustees

Eligible to be appointed trustee of state property are all domestic or foreign legal persons, corporations without legal person status or individual entrepreneurs, provided that after having won the pertinent bid the Property Agency or another trustee signs a trusteeship contract with it in accordance with the conditions specified by law.

Trusteeship contracts may not be entered into for periods longer than 10 years.

The fulfillment of the obligations assumed under the contract to serve as trustee of state property is to be guaranteed by way of liens, security deposits, joint liability declarations or other means. These guarantees may also be applied collectively.

The law recognizes three types of trusteeship contracts:

- trustee business;
- trustee lease; and
- portfolio trustee.

Under a trustee business contract the trustee pledges that in exchange for a fee paid by the Property Agency it will—with the exception of alienation—exercise the rights of proprietor by agreeing to attain a certain predetermined level of returns on the property, and assuming the responsibility of maintaining or attaining the property value levels specified in the contract.

Under a trustee lease contract the trustee pledges to pay the Property Agency a fee, maintain the property values stated in the contract, and in exchange it assumes all proprietary rights over the property with the exception of the right of alienation.

Under a portfolio trustee agreement the trustee pledges that in exchange for a fee paid by the Property Agency it will exercise all proprietary rights—including the right of alienation—by agreeing in the contract to attain a specified level of returns and incremental growth of assets, or to attain a specified level of returns or incremental growth of assets.

The trustee may offer to purchase the share of the property under its trusteeship from the Property Agency.

Participation of State Enterprises in Private Corporations

Law No. 8/1990 on the protection of state enterprise property does not extend to the reorganization of enterprises into private corporations or to transactions aimed at bringing about such a reorganization.

The law extends to every form of state enterprise, their subsidiaries and other state-operated economic organizations (hereinafter: enterprise) in cases where the contract they enter into pertains to the alienation of enterprise-managed state property, the transfer of the actual right of disposal concerning such property, including the transfer of state property to private corporations above a value limit specified in the law.

Enterprises are required to report to the Property Agency their intent to enter into a contract if the said contract pertains to:

- a) the contribution of nonmonetary assets to a private corporation, provided that the value of the contribution exceeds 10 percent, but at least 20 million forints worth of the enterprise's total assets as shown on its statement of accounts;
- b) the alienation of enterprise rights of monetary value or proprietary interests in a corporation, provided that the value of the contract exceeds 30 million forints;
- c) in the case of legal provisions to the contrary, the alienation of enterprise real estate, including the right to enter into leasing agreements, provided that the value of the contract exceeds 30 million forints;
- d) the alienation of other fixed enterprise assets and leasing rights to the same, provided that the value of the said fixed assets as shown on the statement of accounts exceeds 50 million forints; and
- e) all contracts (tenancies, leaseholds, etc.) under the terms of which the right to use, develop and profitably employ the share in excess of 50 percent of the enterprise's total assets as shown on its statement of accounts, or any of these rights alone, belongs to someone else.

The law does not extend to contracts entered into by an enterprise as part of its regular economic activities or to contractual agreements with other enterprises, except those it signs with its own subsidiaries.

The requirement to give notice is waived if the enterprise opens up the contracts referred to under b), c), d), and e) to competitive bidding and as an outcome of that process awards the contract to someone, or if it publishes the conditions of the contract in two nationwide dailies, and agrees to award the contract within 30 days to the bidder with the best offer.

The law sets a strict and short deadline by which the Property Agency must conclude its study of an intent to sign a contract. As a principal rule it states that if the Property Agency fails to take the steps specified in

Section 5 of the law within 30 days of the declaration of intent, the enterprise may proceed with signing the contract as specified in the declaration.

Within the above 30-day deadline the Property Agency may:

a) order a new property appraisal to be conducted by an appraiser appointed by the Property Agency at its expense which it must complete within 30 days of receiving the order. The enterprise may not alienate the property below the value thus established without the consent of the Property Agency;

b) it may stipulate that the contract be opened to competitive bidding; or

c) it may prohibit the signing of the contract.

The enterprise may—within 30 days of being informed of the decision—request the courts to review the decision.

Industry: Difficulties Predicted; Trends, Problems Analyzed

91CH0088A Budapest FIGYELO in Hungarian
11 Oct 90 p 9

[Article by Marton Peto based on Economic Research Institute Analysis: "Industrial Forecast: Difficult Industrial Situation"]

[Text] Increasing exports subject to settlement in convertible currencies are frequently accompanied by a deterioration in profitability (losses). This could hardly serve as the foundation for changing markets in the foreseeable future, according to this Economic Research Institute analysis.

Industrial exports subject to settlement in rubles will further decline this year, while exports payable in convertible currencies will increase at a slower pace during the remaining months of 1990. Along with this the reform of the market continues.

During the first half of 1989 gross industrial production continued to stagnate, thereafter, however, it declined at an accelerating pace. The pace of decline is becoming slower in the remainder of the year; considering all industrial products the decline will be about 7 percent.

Processing industry production has been declining at an accelerating pace year after year ever since 1987, particularly in the light industry and the machine industry. Production in 1990 will be 14 percent lower than three years ago. Base material production will decline by 14 to 16 percent this year, while the decline in the foundry industry will be even greater. Within the energy sectors the decline in production is strongly dispersed, in coal mining, for instance, production will drop by 20 to 25 percent.

Domestic sales will decline by 10 to 12 percent. Favorable weather conditions (energy branches), and declining demand for semifinished products (e.g., machine parts, foundry, construction and synthetic materials, rubber goods, fabrics, etc.), and for industrial goods used by consumers (e.g., shoes, textile clothing) play a role. Reduced agricultural consumption causes problems in the manufacture of fertilizers and insecticides.

Exports payable for in rubles declined by 30 to 40 percent, and in larger proportions in the machine industry. Industrial product exports payable in currencies other than the ruble will expand by about 10 percent. The increase in the machine industry amounts to 14-16 percent, and 8-11 percent in the light industry.

In branches serving the domestic market the decline amounts to three to five percent, but in the machine industry the reduction amounts to 12-14 percent. Taking industrial production as a whole, three-fourths of the reduction in production corresponds to reduced domestic sales, while 46 percent of the reduction represents declining sales in the ruble market. (The reduction is offset by the growth of exports payable in convertible currencies. This reduces the decline by 22 percentage points.)

Doing business is made more difficult by an increased ratio of self-produced supplies. Unsold products pile up in inventory with increasing frequency, and procurement is often delayed or reduced as a result of problems with financing.

In certain cases internal rearrangements, reorganization, fear of the evolution of new political power centers, and management crises exert an unfavorable influence on enterprise conduct and performance. Personal interests are gaining strength, and technical development, the development of, and establishing foundations for, strategies are accorded low priorities. As a result of this endeavor for survival, and not least as a result of the significant lack of capital, the organizations postpone the initiation of larger undertakings, and postpone making decisions.

The volume of investments is on the decline, and increasingly fewer new investment projects are initiated. The worth of resources for technical development depreciates as a result of inflation, and is further reduced by withdrawals. The effects of lack of capital, which hinders structural transformation, and the decline in research and development manifest themselves only in the medium term, but at that point they cause deteriorations in performance at an accelerating pace year after year. For example: the roots of the reduced performance of the past year or two, which will continue in 1991, reach back to the developmental projects of earlier years which did not materialize, or did not turn out the way they were planned.

This year's industrial employment declined by between 6 and 7 percent, and by larger percentages in large enterprises. Gross average wages will have increased by 26 to

27 percent. Wage policies pursued by industrial organizations are increasingly characterized by wage increases corresponding to, or at least coming close to, the inflation rate. Wages paid for each 100 forints of value produced increased this year by 0.5 to 1 percent, as compared to the previous year.

By now one cannot separate the evolution of producer and consumer price levels, therefore there are (may be) some strong inflationary factors behind the 22 percent domestic sales price level increase of this year. Within commerce involving consumer goods, the price increase amounts to 24-25 percent this year already, even though in the machine industry and in the light industry moderate demand and import competition also manifest themselves as price barriers. On the other hand, the larger part of the ripple effects of price increases introduced, or expected to be introduced in the coming months by industrial organizations in the energy branch, and by base material manufacturers, will affect the populace only in 1991.

Price level changes in sales, the ripple effects of price level changes, the decline in the volume of production and the increase of specific costs, exert varied effects on the bottom lines of enterprise financial statements. Variations become more pronounced, the number and ratio of loss operations and enterprises experiencing financial problems is on the increase.

Enterprise operations in 1991 will be determined not only by the positive processes that were introduced already or are planned to be introduced, but also by conflicting influences at the macro- and the microeconomic levels which will be difficult to offset in individual cases. Along with a declining volume of expendable income, the stimulation of entrepreneurship, privatization, the harnessing of inflation and unemployment, efforts to improve performance, preservation of the external and internal balances, and not least an increase in the predictability of governmental conduct, represent conditions and requirements which will directly or indirectly motivate the functioning and conduct of enterprises in the upcoming period.

The outlook is not more favorable for 1991. Trends characteristic of a crisis continue to prevail, on occasion with increasing intensity. Due to the low level of competitiveness, East European exports continue to further decline. The transition to the settlement of accounts in dollars serves only to bring to the surface and to make more acute the technical and structural backwardness of industrial organizations. For this reason the reductions in prices by individual enterprises will vary greatly. Much uncertainty exists with respect to the transition. Aside from the contradictory and hard-to-predict conduct manifested by our trading partners, various conditions in Hungary are not known either (e.g., intervention by the state budget, issues pertaining to financial accounting techniques, etc.).

Because of postponements in procurement, inventories purchased for production purposes are well below last year at this time already. From the standpoint of preparations for next year, orders, materials inventories, and procurement are delayed by two to four months. This may be accompanied by reductions in production to an extent not seen thus far, by employment tensions, and by an increased inability to make payments during the initial months of next year. These effects will manifest themselves with varied strength, and they will be significant in the machine industry.

Domestic Price Levels in Industry
(Previous year = 100)

| | 1987 | 1988 | 1989 | 1990 forecast |
|-------------------|-------|-------|-------|---------------|
| Energy | 101.0 | 107.5 | 104.9 | 120.0 |
| Base Material Mfg | 104.0 | 106.0 | 121.0 | 122.0 |
| Processing Ind. | 105.0 | 103.0 | 116.0 | 121.0 |
| Total Industry | 104.0 | 104.0 | 113.0 | 121.0 |

Industrial Production Volume
(Previous year = 100)

| | 1987 | 1988 | 1989 | 1990 forecast |
|-------------------|-------|-------|-------|---------------|
| Energy | 103.0 | 103.0 | 101.0 | 97.5 |
| Base Material Mfg | 102.0 | 106.5 | 102.0 | 86.0 |
| Processing Ind. | 104.5 | 101.0 | 98.0 | 89.5 |
| Total Industry | 104.0 | 104.0 | 100.5 | 92.0 |

Semiannual Investment Report

91CH0015A Budapest FIGYELO in Hungarian
13 Sep 90 p 6

[Article by Dr. Ivan Kende: "The State Development Institute Reports: 100 Billion Forints During First Half of the Year"]

[Text] In accordance with annual plans, in 1990 state and cooperative economic units will be allowed to spend 296 billion forints (excluding general sales tax) on investment. As of the end of the first six months, they have spent 104 billion forints of this, which is only 4 percent more than the amount spent last year.

The reduction in the proportion of central investments, a trend evident for years, continues this year. Last year more than one-fifth of the money available for investment purposes was earmarked to support centrally planned projects; this year only 17 percent will do so. The amount that may be spent on major projects equals less than 2 percent of the fiscal resources, and targeted or

other type of central projects have to settle for ten and six percent of the total, respectively.

Within the area subject to central decisions, the amount of money available this year for large projects is 7 billion forints less than the resources released last year. The approximately 60 percent reduction is evident primarily in connection with the Danube river barrage system and the nuclear power plant at Paks.

The resources available to priority projects exceed those of last year by nearly 3 billion forints, primarily because the nation's road network, the electrical energy supply and the telecommunication system are expected to develop at a rate greater than last year.

Other central projects are expecting resource allocation plans equal in volume to those of 1989, primarily due to their connections with tasks in the areas of culture and education, social welfare and health, research, water purification, as well as national defense and the maintenance of public order.

This year's plan also includes allocations similar to those of last year when it comes to investments by local councils.

The greatest increases, amounting to some 33 billion forints, that is, a growth of 18 percent, over last year, are expected in the sphere of investments where decisions are made at the enterprise level.

The Usual Tempo

During the first six months of this year, similarly to last year, state and cooperatively owned management units have spent more than one-third of the amount that was earmarked by the plan for their investment activities. In comparison to the same period last year, expenditures decreased (by 14 percent) in the sphere of centrally controlled projects, while among projects controlled by councils and enterprises they increased (by 3 and 9 percent respectively).

As of the end of June, centrally controlled large projects "consumed" 2 of the 3 billion forints set aside by an emergency governmental decision. This is only one-third of the amount made available during the first half of 1989. Ninety-two percent of this money was spent on completing on-going projects, and 8 percent on projects that are in a planning or maintenance phase.

Half of this amount was spent on financing tasks associated with the Danube Water Barrage; modified and approved by a government commissioner, these go beyond the previously completed phases only in the areas of flood control, damage prevention and the preservation of existing facilities.

About 37 percent of the amount was spent on tasks remaining to on the nearly-completed Metro system.

Finally, 13 percent of the money spent was distributed among three major projects already under way (the Paks nuclear power plant, the Mecsek coal-mining region and the renovation of Buda Castle), three projects in the planning-preparatory stage (enlarging the Paks nuclear power plant, building a new Danube bridge in the Lagymanyos district and completing a new phase of the Metro system), as well as one maintenance project (research facilities in the Mecsek mining region).

Only the Metro

Only one of these large projects, the construction of the Metro system, shows an unequivocally favorable picture. Due to good organization and the rescheduling of tasks originally set for next year, the project is well on its way to completion. Based on the above, it is technically realistic to expect that the system will open to traffic this year and will be entirely finished in 1991. All of the necessary resources are available, at a rate suitable for the accelerated rate of work. The government will be requested to ensure the orderly release of these resources.

As for the situation of other projects, the previously developed uncertainties about them still have not been settled. Thus, for example, the reactor blocks placed in operation during the first phase of the Paks Nuclear Power Plant are operating quite efficiently, and provide nearly fifty percent of the country's electric energy. Steps have been taken to close the state supported phase of the Paks project, with the remaining tasks to be completed as enterprise investments. However, no decision has been made on an issue that is unavoidable and, in light of environmental regulations, of fundamental importance: the location of a final burying ground for the nuclear waste. As for preparations for the planned enlargement of the nuclear power plant, they were suspended by a government level decision, but no stand was taken concerning the disposition of the already existing items of equipment (i.e., their utilization, disposal or maintenance).

Similarly delayed are central decisions concerning the fate of developments in the coal mining region of the Mecsek mountains, the already existing facilities of the Danube River Barrage System, the settlement of various compensation demands tied to the evacuation of the river barrage(s), the utilization of buildings renovated within the Buda Castle District, or of the long-awaited realization of the National Theater and of the bridge over the Danube in the Lagymanyos district (which was approved and started last year, but is still in the preparatory stage).

Investment Expenditures of State and Cooperative Organizations, Classified by Decisionmaking Spheres
(Current Prices in billion forints, excluding general sales tax)

| Decisionmaking Plan Sphere | Spent in First Half of 1990 | Planned for 1990 | Completed in First Half of 1990 | Annual Plan in % of Annual Expenditure |
|-----------------------------|-----------------------------|------------------|---------------------------------|--|
| Large Investments | 2.0 | 5.5 | 37 | 33 |
| Priority Projects | 10.3 | 29.4 | 35 | 115 |
| Other Central Projects | 5.7 | 16.4 | 34 | 96 |
| Central Projects Total | 18.0 | 51.3 | 35 | 86 |
| Council Projects | 11.9 | 31.0 | 38 | 103 |
| Enterprise Projects | 74.4 | 214.1 | 35 | 109 |
| State and Cooperative Total | 104.3 | 296.4 | 35 | 104 |

Communication, Railroads

Of the 10 billion forints spent during the first six months of the year on priority projects (out of the 29 billion earmarked for that purpose), nearly one-third was spent on developing the national telephone network, and more than half on improving railroad transport, public highways, and our capacity to produce carbohydrate and electrical energy.

Compared to the same period of the previous year, total expenditures have increased by 15 percent. Growth was primarily characteristic of such activities as highway construction, electric power facilities, postal projects and the development of regional water works.

Of the 16 billion forints earmarked for other endeavors within the central decisionmaking sphere, almost 6 billion, or only four percent less than the previous year, were paid out by the end of June. About half of this amount was allocated to the Ministries of Welfare, Culture, and Public Education, the development projects of the Hungarian Academy of Sciences, and projects tied to national defense and law enforcement tasks.

During the first six months local councils "released" for investment projects about 12 of the 31 billion forints assigned to them by the annual plan, or only 3 percent more than last year. Three-quarters of this amount was spent on development in such areas as education, culture, human resources, management, public health, and welfare.

Nearly three-quarters of the amount spent on investment during the first half of the year, about 74 billion forints, were "used up" by enterprise level investment activities. This is a fiscal accomplishment that equals one-third of the 214 billion annual projection and exceeds the amount spent in the same period of last year by nine percent. A comparison reveals that 16 percent more was spent on construction, 17 percent more on domestic machinery, while 7 percent less was used for machinery import from ruble-based economies and 4 percent less on import from countries with convertible currencies.

To finance investment activities at the enterprise level, until the end of June management units used 17 billion

forints in bank loans and 5 billion in state assistance. In comparison to last year, the use of credits increased by 36 percent, while the use of state assistance decreased by 18 percent. More than half of the loans were connected to objectives supported by the World Bank or otherwise deemed to be of priority. As for state assistance, it was primarily used to realize projects that aid new enterprises, the growth of competitive export production and the development of underprivileged regions.

POLAND

Ownership Conversions: Opportunities for Foreign Capital Detailed

91EP0040A Warsaw GAZETA PRZEMYSLOWA
in Polish No 21, 10 Oct 90 pp 9-10

[Article by Elzbieta Dobrodziej: "Ownership Conversions, Privatization—Business Opportunities for Foreigners"]

[Text] The process of ownership conversion is also open (which they are counting on anyway, "quietly and loudly") to foreign parties, i.e., individuals and corporate bodies (including those which have no legal status) who live or have their headquarters abroad.

But it should be particularly noted that:

1. If the company which was formed as a result of the conversion of a state enterprise intends to make its stock available to foreign parties (or legal entities which have their headquarters in Poland but are under the direct control of a foreign party), and their nominal (not real) value exceeds 10 percent of the stock capital, it must first obtain permission to do so from the president of the Agency for Foreign Investments.
2. Making privileged stock, i.e., stock which carries with it an entitlement to a larger number of votes (e.g., two or three votes per share), or first priority in payment when the company is liquidated, available to foreign parties (as described in point 1), requires similar permission.
3. The takeover of stock by foreign parties (and legal entities under the direct control of foreign parties) in a

situation when a decision has been made to increase the stock capital of a one-man State Treasury company by issuing stock, also requires the approval of the president of the Agency for Foreign Investments.

As regards foreign parties purchasing stock belonging to the State Treasury in companies which were formed as a result of the conversion of a state enterprise, the provision of Article 41 of the Law on Economic Activities with the participation of foreign parties¹, which states that foreign parties can (with permission) purchase stocks in companies formed under Polish law if by so doing they increase the company's initial capital, does not apply.

Payment Method

The foreign purchaser can pay for the stock of the companies discussed both in the a monetary or nonmonetary form. If in the form of money, the payment must be made in Polish currency derived from the sale of foreign currency in a foreign exchange bank, at the currency exchange rates announced by the National Bank of Poland. However, if the purchaser of the stock wishes to pay for it in a nonmonetary form, i.e., in an assets-in-kind form (for example, by contributing machinery or equipment², a patent, a license, a computer program, or know-how), then the lawmaker requires that they be transferred from abroad or purchased for Polish currency derived from selling it in a foreign exchange bank³.

The same rules governing the form of payment are binding when the stock capital of a company which was formed as a result of the conversion of a state enterprise is increased. Then the contribution of the foreign party may be in a monetary or nonmonetary form if the conditions cited above are observed.

Both in purchasing stock and in making a contribution, the money cannot come from:

—The income which the foreign party obtained from stock in a company which was formed from a converted enterprise—from sums obtained from the sale or redemption of such stock—from sums due the foreign party in the case of liquidation of the company.

In view of the fact that the process of privatization has been taking a long time, the above regulation may be of importance to those persons who had shares in the first privatizations and will already be drawing profits.

Disposition of Profits

The income obtained by foreign persons from the stocks they own in companies which were formed as a result of the conversion of state enterprises can be transferred abroad, without a separate foreign exchange permit, according to the general rules binding on foreign persons participating in the profits of companies which were formed as prescribed in the provisions of the Law on

Economic Activity with the participation of foreign parties⁴. These provisions state that:

—Out of the profits, paid by the company, derived from the surplus of receipts from export over expenditures from import, which the company obtained in the previous accounting year (in convertible currencies), the foreign party has the right to buy foreign currency and transfer it abroad.

—However, as of 1 January 1991 the foreign party will, in addition, have the right to purchase foreign currency for 15 percent of the sum of the profit, paid to it by the company, derived from the previous accounting year (after deducting the surplus mentioned above). If there are several foreign parties, then the purchase of foreign currency within the limits of this additional 15 percent sum can be made proportionally to the division of profits among the partners.

Purchases of foreign currency can be made only in a foreign exchange bank on the basis of a nontransferable certificate. It is issued by the organ of the minister of finance authorized to do so, or by the party authorized by the minister of finance to audit the company's annual balance sheet. The certificate specifies the amount of the profit paid to the partner and the surplus. The foreign currency obtained in this way can be transferred abroad without a separate foreign exchange permit.

Of course, before the profit and surplus due the foreign party is paid, the company has the duty to collect, from this sum, the applicable income tax (unless the provisions of the international agreements binding on Poland do not state otherwise, the amount collected is 30 percent⁵.

If the foreign party obtained certain sums:

—From the sale or redemption of stock.

—Due it in the case of liquidation of the company then, after paying the applicable taxes, it can also transfer these sums abroad without a foreign exchange permit⁶.

The above rules pertaining to the purchase of stock belonging to the State Treasury and the transfer abroad of profits derived from these transactions apply also to companies whose only founder is a company in which only the State Treasury has a share, and to contributions, payments for stock, to the taxation and transfer abroad of the incomes of foreign parties from stocks and the sums from sales or redemption of stocks in such companies, and also to the sums due the foreign party in the case of liquidation of the company.

The role of foreign parties in ownership conversions is not limited to the purchasing of stocks. They can also participate (in monetary and nonmonetary form) in limited liability companies, created from the property of a liquidated company, and buy the property of a liquidated enterprise put up for sale.

In conclusion, it should be added that in cases of justified importance to the national economy, the minister of finance (at the request of the minister of ownership transformation) can exempt a company from income tax and the tax on the growth of wages, for a period of up to three years from the time the stocks belonging to the State Treasury are purchased by the foreign party, or the takeover by such party of stock issued by a company with the exclusive participation of the State Treasury. The object here is to make it possible (in justified cases) to give an equal opportunity to the companies created on the basis of the provisions of the Law on Privatization of State Enterprises, in which foreign parties have a share, with the companies created on the strength of the provisions of the Law on Economic Activity in which foreign parties have a share, and which are by law exempt from income tax for a period of three years from the beginning of economic activity⁷ and do not pay a "wage" tax at all.

Footnotes

1. Law dated 23 December 1988 (Dz.U., No. 41, Item 325, and from 1989, Dz.U., No. 74, Item 442).
2. Objects constituting the nonmonetary contribution of a foreign party are exempt from import tariffs and other fees similar in effect to such tariffs.
3. See Article 16, Paragraph 2, of the law referenced in footnote 1.
4. See Articles 19, 20, and 29 of the law referenced in footnote 1.
5. See Article 29 of the law referenced in footnote 1.
6. The rules for transferring these sums will be defined in a directive issued by the minister of finance.
7. See Article 28 of the law referenced in footnote 1.

New Club for Private Entrepreneurs Profiled

91EP0036A Warsaw GAZETA PRZEMYSŁOWA
(PRIVATE INDUSTRY supplement) in Polish No 21,
10 Oct 90 p 9

[Article by Andrzej Voigt, director of Club for Private Entrepreneurs: "Presenting the Organization for the Enterprising"]

[Text] The Club for Private Entrepreneurs is an integral part of the Congress of Liberals' Economic Society. Its membership includes about 100 private entrepreneurs from the Gdansk and Slupsk regions and elsewhere in Poland.

It was founded in September of 1989, on the initiative of several businessmen and members of the Congress of Liberals and at the instigation of Sejm Deputy J. K. Bielecki, who at the time was preparing for a parliamentary session on the development of private enterprise. The Club was a protest against the craft guilds' passive

attitude toward their members and still is. The guilds mainly require prompt regular payment of dues and call for adherence to production and trade regulations that are often unrealistic.

A chief feature of the club is that it has no bureaucracy of any kind. This fact has earned it a good reputation in the business community. Somebody said: "The reason Japan is such a strong country economically is that its politicians listen closely to people in the business world. We too would like to demonstrate such a working philosophy."

The club's chief operating principle is adherence to the ideals of "fair business." Our members' high morals are their chief characteristic, as expressed in each member's so-called "clean card," being free of any economic misconduct, and having a good reputation in the community.

The club's activities are encompassing more and more new aspects of private enterprise development. First, it was necessary to set up legal and economic aid for members and associates with problems in these areas. Then, the issue of managing foreign offers and representing the club at economic meetings came up.

After the members saw that import-export transactions needed to be handled professionally and that they should be making full use of existing contacts as well as establishing new ones, they decided to create a department called the Import-Export Office, which will start up operations at the beginning of October, 1990.

The Club for Private Entrepreneurs is, first of all, the organizer of the Gdansk Business Forum. Every three months, the forum makes it possible for business people to come face to face with representatives of groups from city councils, parliament, banks, and government, along with describing the barriers to development and providing constructive alternatives.

Second, the club is the chief founder of what is called the Agency for Regional Development [Agencja Rozwoju Regionalnego], whose tasks include supporting private enterprise, consulting in the broad sense, along with granting high risk credit, and fighting unemployment by creating new jobs and nurturing enterprises.

Club members also sit on the economic development commissions of cities and towns in our Gdansk region. Every month they set up meetings for club members and friends. These meetings have an open nature, and well-known people attend them. For example, the President of Gdansk Voivodship and the deputy chairman of the Gdansk Bank were at the last meeting. These meetings attract so many people that we have come to the conclusion that we should create chapters, whose heads would automatically sit on the club council.

One of the practical aspects of the club's activities is organizing schools and trips of an economic training nature. We recently established contact with a free

enterprise organization of Swiss business people, the VFU [Association for Free Enterprise]. Our delegation visited many companies in that country and took part in preparing a training project for our members and possibly for the entire private business community throughout Poland. This project was approved by the minister on Eastern European assistance, who also established impressive financial resources to support this sort of activity.

The club may be contacted Monday to Friday from 0830 to 1630 in Gdansk at 8 Grunwaldzka Street. Telephone: 41-82-23. Telex: 51-22-20. Fax: 31-52-33.

Dire Financial Straits of Mining, Mining Equipment Industry Viewed

91EP0027A Warsaw ZYCIE GOSPODARCZE
in Polish No 37, 16 Sep 90 p 9

[Article by Zbigniew Grzegorzewski: "When Mines Are Out of Money"]

[Text] Hard coal mines have fallen into financial straits. Problems with the sale of coal as well as delays in the transfer of budget subsidies have resulted in that due to financial losses, they [coal mines] are increasingly less able to regulate their obligations toward suppliers. This is an extremely serious problem because part of our economy has been subordinate to the needs of the mining industry for years; many enterprises worked for it.

The glow of the mining lobby has dimmed. Revaluations (will they be permanent, however?) have hit the country's largest manufacturer of hard coal mining machinery, the Glinik Drilling and Mining Machinery Factory in Gorlice, extremely hard. The extent of the problem can be attested to by the fact that its clients owe the enterprise 120 billion zloty (whereas Glinik's obligations toward its suppliers come to 65 billion zloty). The clients' outstanding payments correspond to two months' value in sales but, at the same time, this is an amount equivalent to nearly half of the value of the fixed assets of the Gorlice firm and this after revaluation of the assets (presently, the enterprises founding fund and the enterprises fund amount to 250 billion zloty).

However, the payments entanglements constitute a lesser problem than the problem of finding a market for the goods produced. The needs of mines have diminished drastically.

The factory management has problems but the enterprise's work force must have been no less frightened since, upon hearing the news about the drop in production, sick absenteeism declined by nearly 50 percent. The enterprise which was in 99th place [for 1989] among firms of our processing industry in terms of sales, employed 6,900 workers. The drop in sick absenteeism resulted in that, despite maintaining the cadre numbers as usual, 600 more people showed up for work every day. This became even more evident after 700 workers had to

be layed off with one stroke. After long skirmishes, they were able to lay off a group of 316 people.

"We do not know what the effect will be, although, our workers have not left the court house in three months," comments the head bookkeeper at the Glinik FMWiG [Drilling and Mining Machinery Factory], Zbigniew Michalik. "And what will happen when it turns out that production will continue to drop?"

Illusions and Reality

For many years, Glinik had a good financial standing. The feeling of self-confidence must have been great since the factory could afford to come out with a *votum separatum* with regard to mining structures. The management and the self-government did not give in to being pressured into the consolidation of machine manufacturers under the Polmag mining company and subsequently into Polmag-Emag. They gave in only in that they found themselves in the Anthracite Coal Association but with specific rights giving them nearly complete independence.

Currently, visions of financial prosperity have faded greatly. Recently, exceptionally high export efficiency indexes were being attained owing to contracts with China for machinery deliveries. Things came to an end with the delivery of two face mining sets which is being explained with the fact that the client converted part of its arms industry into the production of mining machinery. Traditionally, we have counted on exports to the USSR. However, mining machinery housing did not find itself on the trade list established by the Ministry of Foreign Economic Cooperation.

Toward the end of the third quarter of last year, it still seemed that the traditional demand for Glinik's production would be significantly higher than the production potential. There was concern over exports to the USSR since the beginning of the year but the situation always seemed under control. It was not until the end of April and the beginning of May that our mines began to cancel the negotiated contracts in mass numbers. The first half-year brought a 10 percent drop in sales (calculated according to fixed prices). It was not until the second half of the year, however, that the outlook became grim.

As can be seen, mines believed for a long time that their financial situation had to improve since they began to back out of their contracts so late. The KWK [Anthracite Coal Mine] Sosnica did not cancel its order for a face mining set (the price of such a set comes to approximately 8 billion zloty currently) until it received 38 of the 110 sections that make up this equipment. Fortunately for Glinik, it was still possible for them to sell this face mining set to KWK Powstancow Slaskich. Other mines did not behave much better. Thus, the production outlook for the second half of the year was beginning to look very poor. However, it is still difficult to assess the drop in sales because as a rule, mines avoid binding replies to telexes and do not confirm orders for replacement parts nor do they cancel them. Meanwhile, the sale

of replacement parts was counted on to a great extent since it is so difficult to sell complete mining machinery.

Thus, not much has remained of the recent notions about the growth of mining machinery production for anthracite coal mines. And what about oil and natural gas drilling? After all, these [mines] had a 20 percent share in the purchase of Glinik's production. It may seem that there is hope for salvation here for the enterprise since much had been said about increasing natural gas output and more importantly, this was to be accomplished with the participation of foreign capital.

Foreign capital has not backed out. However, the problem is that the oil and gas mining industry has decided to equip itself with the most modern installations that conform to U.S. standards. That is why, contracts with Glinik amounting to 3.5 billion zloty were cancelled. The contract was broken when the Gorlice enterprise had already incurred outlays exceeding 600 million zloty. The dispute was subdued probably owing only to the fact that representatives of Glinik will participate in the work associated with the planning of import offers whereas the proximity of the negotiation table gives hope that it will be possible to purchase new technology. Another point comes out of all this, as well: since our oil men want state of the art equipment and are not looking for it in Glinik, this means then that this manufacturing giant does not manufacture modern equipment.

Leniency

Judging from the number of contracts broken by its clients, the enterprise should have sizable financial income from demanding its right to seek damages from these clients.

However, this is not readily possible, not only because of the principle that dog doesn't eat dog [krak krakowi oka nie wykole] but in many instances—so claim the people I have talked to—there is no one against whom financial claims can be made, because the bureau of mining machinery assembly, acting under the dissolved Anthracite Coal Association, has been closed down.

Another reason lies in the functioning of the economic courts created recently following the elimination of the economic arbitration board. First of all, the arbitration board would collect one percent of the value of the amount at issue from the litigant party whereas the economic court collects 12 percent. Therefore, this requires a large sum of cash to be frozen in litigation for a number of months.

"We have been taken in once before already," states Z. Michalik. "In February, we brought our case to court; after a month, the debtor decided to repay. However, we waited until June at which time the court made its judgement for the 12 percent surety bond to be returned."

Attempts were made to regulate mutual liabilities through the introduction of bills of exchange. Recently, however, mines have been fighting against signing these (the reasons for the reluctance toward the bills are contained in the editorial discussion entitled "A Bank Is Not an Enclave" in ZYCIE GOSPODARCZE No. 33/1990).

A tripartite agreement was signed with the participation of the Czystochowa Steelworks and the Coal Sales Center on the compensation of payments entanglements. However, Glinik is not able to meet the stipulations of the agreement because of the mine debts.

"The situation is very clear," admits Karol Mysliwiec, director of development and exports. "Mines do not pay Glinik and we do not pay the steel plants. The financial troubles of mines have very serious consequences for the flow of money in the entire economy."

Glinik is doing all right financially in that at least it is not behind its payments into the budget (the annual dividend comes to only 14 billion zlotys since the enterprise's founding fund constitutes only 17 percent of the founding fund and the enterprise fund taken as a whole). One can surmise that the situation is still bearable since production is carried on by using material purchased at the old prices whereas the final product already has prices adjusted to at least the level of inflation.

First Aid

In mid-August, when I visited the enterprise, at least part of the dreams of the managers of the Drilling and Mining Machinery Factory had been fulfilled. The issue of exports to the USSR had been resolved; face mining machinery sets found themselves on an additional list. Exports will be effected through Rumania on the basis of debts regulated between three countries.

For Glinik this means the possibility of manufacturing as many as six face mining sets. There will be enough to manufacture until November. The impending threat has been put off for several months.

However, exports to the USSR are no longer being treated as a mainstay. And this is all the more reason that they appear very doubtful next year. Director K. Mysliwiec predicts that if contracts with the USSR drop out, Glinik's production next year will be at least 30 percent lower. The threat is very real. Thus, the reason for the hasty search for new technology for the production of the kind of machinery that could be sold to the West. Contacts have been made with the Swedes. Efforts are being made to bring in the well-known concern Shell into coproduction.

Since it has come to that mines, in backing out of the services of repair establishments, have taken up repairs themselves (in one of them, it is said that a repair shop has been set up underground), the enterprise is gearing itself toward the greater share of replacement parts in its

production. Glinik has a forge which is currently producing forged parts for the agricultural machinery industry. The only thing being, that the consumers of the forged parts are having enormous problems with the sale of agricultural machinery.

All undertaken steps do not, however, remove the threat that production will fall 30 percent. That is why assistance is being sought in the Fund for Structural Changes and in the Ministry of Foreign Economic Cooperation because of their ties to the World Bank. The enterprise

wants to turn its production to sewage treatment plants (but not container-typed treatment plants because manufacturers of these already exist but rather larger ones) and water treatment installations in the form of condensing presses which at the same time could be used in the production process by the papermaking industry. They [Glinik] see a future in this; of course, without giving up their current production. This constitutes a considerable change. It may be assumed that confidence in the power of hard coal mining has disappeared. Is this for certain?

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